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Cirrus Logic, Inc. (CRUS)

KeyBanc Technology Leadership Forum

CORPORATE PARTICIPANTS

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

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

OTHER PARTICIPANTS

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Great. Good morning, everybody. My name is John Vinh. I cover semis here at KeyBanc Capital Markets. We're pleased to have the Cirrus Logic team with us. We've got Jeff Woolard, the CFO; and Carl Alberty, EVP of Mixed Signal Products. Welcome, guys.

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

Thank you.

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

Thanks for having us.

QUESTION AND ANSWER SECTION

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

I think what was most notable from your most recent earnings call in regards to HPMS, you said, that you guys have one of the strongest opportunity pipelines in recent history. Just when you look out over the next two, three years, what's kind of changed fundamentally for you, guys, to kind of have such a strong pipeline?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

I'd say nothing has fundamentally changed. I think it's our strategy in execution mode. Obviously, we've been trying to expand our content footprint for quite some time beyond audio. And part of the way to do that is to not just show up with a piece of paper saying we can do something, but to actually show up with real silicon data to prove out the IP and to kind of prove it's ready for inclusion in custom products. And so we've been doing that and I think that's materializing and opportunities for both incremental growth as well as next generation, all kind of content expansion. So I don't think anything has fundamentally changed, but you know that effort to prove out that IP in silicon is starting to become real.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

That's great. With the memory shortage situation that we're dealing with right now, it seems like your growth in smartphones over the next 6 to 12 months is probably going to be driven primarily by content. Can you just talk about how do we think about your growth in smartphone content over the next couple of years?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

Sure. I mean, we've we've said we are planning to ramping a brand new, custom silicon products this year, but we're still excited with the broad portfolio of products we do have across audio and HPMS in terms of what customers can do with those products, in terms of attach rates and configurations to address the requirements in evolving portfolio of products. So we don't have anything specifically ramping this year. We're in development on multiple fronts, as we've talked about in the last question regarding that kind of content expansion, the opportunity to drive that being so exciting in the coming few years, but certainly in the next year, we do think there's opportunity for some kind ofincremental gains just by using the existing portfolio of products which we which we do have.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. I think one of the most exciting things I think you guys have talked about in terms of content opportunities is you've talked about this new power IC for 3D sensing. You already are shipping a power conversion IC today. Is there a way to think about this new kind of power IC that you're developing? Should it be roughly comparable in content to the existing power conversion IC that you're already shipping today?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

That's a reasonable way to think about it.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Great. And then in your shareholder letter, you talked about the power IC for 3D sensing. Given the timing is a few years out, can you talk about how much certainty or not there is to this part and that it will ramp in a couple of years out? Or is there still a little bit of things that need to be locked down there?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

A

Well, we've got to do our job to continue executing the product, which remains on track. We benefited from our customer talking about that product publicly and the collaboration on the product, but also around bringing up capacity and manufacturing footprint in America as part of that particular program. So we just need to do our job. Unlike the power conversion and control IC, which was a brand new function, first ship of its kind in that particular application, this program, as part of an existing kind of subsystem, that's important. And the functionality and the performance we bring will be an enhancement to the current solutions. So we just need to keep focused on execution and to support the customer.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. You've been incredibly successful with your camera controller products, right, in terms of gaining share, proliferating, and increasing attach rates in smartphones. Can you just talk about how much runway there is left over the next several years in terms of camera controller growth? And what are kind of the drivers of that?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

A

Well, we've certainly in the last five, six years deployed three generations of products, each one with expanding performance capabilities and therefore value. We're developing the fourth generation now. And there's certainly no shortage of roadmap and innovation left in that application set. Certainly, there's a variety of different types of cameras and lenses and requirements that, to your point, we've seen a niceuptake of multiple generations in the same product as we kind of introduce newer versions and, certainly, different attach rates as we go forward in terms of that cascading throughout the portfolio. So I think there's still quite a bit of runway. As I mentioned, we've had expansion of that value over each one of the generations and we remain focused on kind of tight collaboration with the customer around the roadmap to really help drive the innovation piece of it.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Maybe, Jeff, question for you, smartphone market obviously is being kind of impacted by these high memory prices, right? You're seeing a lot of smartphone OEMs raise pricing on smartphones. Also, a lot of your peers are talking about just increasing input costs out there. Maybe talk about just what you're seeing on the input cost side of the equation and then on just gross margins, how are you thinking about the sustainability of gross margins here going forward?

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

A

Yeah. I mean, certainly, cost increases in the supply chain and capacity constraints are out there, right? It's not just memory. It's SoC. It's also the back end. It's getting very tight. I think it's important for us, at least up to this point, a lot of the input costs have been negotiated. So those haven't necessarily shown up. We're to the end of one of our agreements with one of the foundries and getting ready to enter a next one, which gives us some capacity and price certainty. And so we continue to monitor and aggressively work the supply chain and aggressively work cost reduction opportunities. And to the extent thatwe have to do targeted price increases, we will do that and look into that. So we did guide that, despite in this environment, we actually thought gross margin would be a little higher this quarter. Again, that's just kind of a timing issue for some past negotiated deals, but we still feel good about our long-term guidance and our ability to maintain that.

John Vinh Q
Analyst, KeyBanc Capital Markets, Inc.

Great. On the supply-constraint side, where are you most constrained at this point?

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

Well, we're not constrained, but it's very tight. And I would say for us, that's probably the OSATs, it's very tight. That's probably where we spend the most time managing that. But obviously, I don't want to dismiss foundries, it's tight all over, but OSATs for us. Yeah.

John Vinh Q
Analyst, KeyBanc Capital Markets, Inc.

Okay. On the OSAT front, I think you've mentioned that just going forward, you're going to have to start procuring your own test machines there. And but you also said something that you felt like that's going to be more efficient from an ROI perspective, going forward. Maybe just unpack that a little bit.

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

Yeah. It is not necessarily we have to. But given the constraint there, we felt it was prudent for us to actually buy some capital that actually goes in the OSATs for two reasons. Basically, if the OSAT buys it, obviously it makes itself into your – its way into your price. If you buy the capital upfront, we think that gives us a better ROI, but it actually gives us more flexibility. And in some cases, by flexibility, I literally mean moving the tester from one OSAT to the other to help juggle some of these constraints. So that's been new for us. We'll see how that continues in the coming years. But for us, yeah, it was really a good decision, a better ROI. But the flexibility to manage capacity was very valuable to us.

John Vinh Q
Analyst, KeyBanc Capital Markets, Inc.

Right. Maybe we can switch to PCs. You talked about a number of factors resulting in kind of lowering your PC outlook this year. In particular, you referenced constrained supply on a key platform, memory shortages and delayed launches. Can you just give us a little bit more color on each of these three kind of factors and none of them seem structural. And when you think some of the momentum in your PC business could pick back up again?

Carl J. Alberty A
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

Yeah. I mean, sure. In the last couple of years, we've made great progress winning share in the commercial space and then more recently in the mainstream kind of lower price tiers which are part of the market we're servicing. And as we go from last year to this year, we've had new codec and amplifier opportunities that look to significantly increase our content in a lot of those devices based on some of the newer platforms that we're aiming to ship this year. And so the ramp up of volume on some of the newer platforms, one in particular has resulted in an allocation kind of situation, significantly delayed ramp and therefore customer introductions being later than desired. And that so has a couple of different impacts. One, just like delayed revenue in terms of the start of some of these programs, coupled with those representing higher content for us. And so in light of the macro and the kind of expectations that units will be down in the back half of the year, coupled with delayed ramps of content growth. It's certainly been a headwind as we look at this year, but it's nothing systemic.

Certainly, we've got great customer engagement and design activity. It's just customers are scrambling to figure out which platforms can they ship, looking at older platforms to continue shipping, which we either have less content on or perhaps weren't in those designs from a year ago, just given the share gains we've been taking. So yeah, we certainly see our path forward is still quite positive relative to the core imperatives around building the portfolio of audio, introducing voice as an interface and next generation models with our newer smart codec that we've been sampling and try to build on that momentum. So it's certainly been a headwind. We don't think it's systemic, but it's certainly had an impact on the year.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. As we think about your opportunity going forward, I think one of the breakthroughs you had in terms of the inflection in revenues is getting designed into a mainstream platform. So going forward, what are going to be the key drivers of growth? Are there other mainstream platforms you think you can get designed into? And then what about content per platform, is that an opportunity for you to grow there?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

Yeah. Certainly. We arenowhere near fully penetrated on mainstream. Mainstream certainly been impacted by a lot of the cost increases from the memory shortages, not notably on the consumer side. But, yeah, we are not fully penetrated on mainstream, so we're aiming to continue that, but also to proliferate more of the amplifiers and codecs that represent higher content. And then we aim to kind of cascade down from the premium tiers, this voice enablement as well there as well as other HPMS kind of content opportunities as we look into next year and beyond.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. The voice-enablement opportunities, is that a higher content audio codec or additional audio amplifiers, is there an incremental content opportunity there?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

It's primarily on the codec. So our codecs today support basic voice inputs, but not the on-device kind of edge processing related to, voice activity detection and kind of trigger phrases to be able to enact or interact with the actual laptop using your voice. So that's mainly an enhancement to the content for the codec, which is largely the integration of the DSP and the kind of the wake-up analog signal chain to support that use case.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Good. Where are we on just the industry conversion to SoundWire at this point?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

I mean that's another thing that's been a headwind for us this year just in light of some of the newer platforms being delayed and customers looking to prop up some of their units with older platforms. So there have been broader kind of permissions granted to delay what we thought would be a pretty significant uptick this year, just driven by the ecosystem partners like Microsoft. So I think in light of the challenges in the portfolio planning and the platforms, they've pushed out that harder requirement into next year. So that's definitely been a headwind. Our win rate on the SDC platforms has remained to be significantly high in that kind of 75% range. We've just seen a deferral to some of the laggards, if you will, to wait till next year just given some of the platform challenges.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. Can you clarify, so even with the processor companies ramping new CPU platforms, do those newer platforms support the older standard?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

It varies by platform.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Got it. I think one of the things you highlighted on the PC front is you highlighted kind of the AI PC opportunity. I think there's still a lot of skepticism from investors on whether there will be a product cycle on AI PCs. What do you think needs to happen for there to be a real opportunity here for AI PCs?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

We think of AI PCs like for us, first, it's the voice interface. Today, having to press a button to get not so amazing user experience is a huge opportunity and a big kind of gate to the kind of use of voice as an interface. The actual AI functionality in the device that might cause some of these upgrade cycles is a little bit adjacent to us. I mean, we are super focused on enabling the always-on, ultra-low power in any kind of mode of operation including when devices are closed. Enabling that ultra-low power voice interface is like the jumping off point. Again, but what the AI functionality on the device actually ends up looking like is a little bit beyond our control. So we're really just focused on enabling that voice piece.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Maybe we can talk about physical AI, it seems like there's a lot of emerging excitement within the semiconductor industry around the physical AI opportunity. It seems like you're in a pretty good position to monetize that opportunity. Can you maybe just talk about how you're thinking about physical AI more broadly? And where do you see opportunities for Cirrus Logic to participate?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

Yeah. I mean, we think of that as a cross-market segment, kind of cutting enablement, which touches a lot of the different technology bits we have certainly voice as like a human-to-machine, which we kind of define physical AI as that human to machine kind of interface and all those kind of interactions. So voice is certainly one of them. But other sensing modalities, including force and touch, they cut across multiple market segments from, again, voice-enabled devices to robotics to autonomous machines. They can leverage a lot of our different technology sets from the kind of human-to-machine input side, as well as the output and actuation side, which leverages a lot of our kind of amplifier, IP, control algorithms and all the signal processing things from sensing that analog to digital conversion piece as well as the rendering side. So, yeah, cutting across IoT and edge devices with voice interface and robotics and autonomous cars and machines and things of that nature. It's a huge technology kind of canvas for us. And obviously, some of the applications are more emerging, which would include AR, VR and other wearable applications as well where we think we have a big technology footprint to kind of fine-tune the plans across those different segments.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Can you give a sense of where your design win funnel is? I've got to imagine there's a lot of opportunities that you're targeting out there. And what does that kind of look like?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

Yeah. Certainly, on the consumer side, there are more advanced applications and customers, doing design work around new, emerging form factors. We think we're really well-positioned there with a good reputation for doing kind of consumer-level, kind of human-to-machine type of applications. So our design pipeline on that side, I would say, is quite strong. We're not in the business of trying to predict which customers or which form factors will ultimately be successful. But we feel really good about the ingredient technologies we have to service that certainly in the more emerging spaces like robotics and other kind of industrial automation and autonomous things are, it's a slightly longer runway and we're having more of a repurposing of some of the IP, but a very large applicability in some of those newer spaces. So we'll be excited to talk about that in due course. But I think the consumer stuff is more, you know, design active just given the products in the portfolio and then the consumer element of our IP.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. You listed a number of assets and components that you have already that can allow you to participate there. It seems like another kind of building block of physical AI. It seems to be the NPU there's a lot of interest in this area. There's been some acquisitions we've seen more recently, maybe talk about the NPU. Is that a capability that you're developing or something that you're looking at this point?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.
A

I don't know that we're ready to start talking specifically about that as an asset we are developing or needing. But I think the on-edge kind of processing both signal processing, control processing that we can wrap mixed signal around, which is a key part of our playbook that we've applied in consumer and a number of other product areas. Our research and investigations and kind of development work around like machine learning at the edge to enable some of these physical AI kind of applications or use cases that again cut across multiple different market segments. That's an area that's really rich for us. So we don't have anything specific to talk about on the NPU front. But I think it's a there's a lot of activity to again validate and address some of these opportunities across physical AI kind of market segments,

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

Kind of a new opportunity that also caught my attention asyou talked about this new high-performance analog front-end part that's being deployed in smart metering. It sounds like it supports a metrology type of functionality. Can you just give us a little bit of background in terms of how this part came to be and and are there kind of broader applications for this analog front end beyond smart metering?

Carl J. Alberty
Executive Vice President-Mixed Signal Products, Cirrus Logic, Inc.

A

Sure. I mean, Cirrus has shipped in smart utility meters before and still, obviously, to a relatively smaller extent. But we've seen that as an opportunity to leverage the IP portfolio. We have to enter into new market segments with an aim to diversify the business well beyond smartphones, despite having good opportunities to continue growing there. And so this is the latest kind of subsegment within that industrial area that we think is exciting in terms of, just market level disruptions that are causing kind of growth and smart meters in particular and a wide range of applications. Obviously, we're starting by having talked about this smart utility meter, this focus on electricity metering. But we think the application beyond that, that's in and of itself a growing segment.

But applications beyond that with things like EV charging and solar and energy storage and potentially even metrology and data center applications leveraging this this core IP we have in terms of high precision analog front ends, really good data conversion processes with kind of compute and processing engines on the back of that all fully encapsulated in a single piece of silicon. It fits our profile really well and it's just three application of this broad IP portfolio under these new segments that are exciting.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

That's great. Any questions? Okay. Maybe, Jeff, just goingforward from a OpEx perspective, there's a lot of opportunities ahead of you guys, right, PCs, physical AI, there's this smart metering program and then your core business. How are you thinking about focusing your R&D investments on a go-forward basis across all these opportunities?

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

A

Yeah. So I think we look at all those different opportunities, and we've had a history of being very disciplined in OpEx, [ph] having (00:21:38) really grown the company much over the last few years. So we're very confident that we have some true value creation opportunities and we're willing to invest in those. So those do go across a variety of different segments, both with our largest customer and a lot of the new markets that Carl has talked about. I think it's important we have decades of this IP that's been in development. So from an R&D perspective, in many cases, we can convert that pretty efficiently from an R&D perspective into new value creation opportunities. So we're really confident in the opportunities we have ahead of us and are willing to invest in them.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Q

Maybe the last question from me is, Jeff, you've got a rich background in M&A. I know you guys are constantly looking at what's out there on the market. Just give us your latest thoughts on M&A and do you kind of see that there are potential opportunities out there for you?

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

A

Yeah. I mean, we're still – we spend a lot of time on it. We want to make sure the internal opportunities are funded and M&A is our second capital allocation priority. So we are constantly evaluating opportunities that help us accelerate into a lot of these new segments outside of smartphone or adjacent markets that can help us – that we can leverage some IP and get some synergies there. So, obviously, the market has experienced a tremendous amount of volatility, which I think makes it interesting for both buyers and sellers. But, yeah, we are constantly looking to find opportunities that can fit that profile.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

That's great. Okay. Well, thank you, guys. Appreciate it.

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

Thanks, John.

John Vinh
Analyst, KeyBanc Capital Markets, Inc.

Thank you.