

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

EVENT DATE/TIME: JANUARY 29, 2020 / 10:00PM GMT

## OVERVIEW:

Co. reported 3Q20 revenue of \$374.7m and GAAP EPS of \$1.13.



JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

## CORPORATE PARTICIPANTS

**Chelsea Heffernan** *Cirrus Logic, Inc. - Director of IR*

**Jason P. Rhode** *Cirrus Logic, Inc. - President, CEO & Director*

**John Forsyth**

**Thurman K. Case** *Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer*

## CONFERENCE CALL PARTICIPANTS

**Adam Gonzalez** *BofA Merrill Lynch, Research Division - Research Analyst*

**Ariel Jonathan Shusterman** *Needham & Company, LLC, Research Division - Associate*

**Charles Lowell Anderson** *Dougherty & Company LLC, Research Division - VP and Senior Research Analyst*

**Christopher Adam Jackson Rolland** *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

**Matthew D. Ramsay** *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

**Thomas James O'Malley** *Barclays Bank PLC, Research Division - Research Analyst*

**Tore Egil Svanberg** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic Third Quarter Fiscal Year 2020 Financial Results Q&A session. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes. I would now like to turn the conference call over to Mr. Thurman Case, Chief Financial Officer. Mr. Case, you may begin.

---

### Thurman K. Case - Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer

Thank you, and good afternoon. Joining me on today's call is Jason Rhode, Cirrus Logic's Chief Executive Officer; John Foresyth, the company's President; and Chelsea Heffernan, our Director of Investor Relations.

Today, we announced our financial results for the third quarter fiscal year 2020 at approximately 4:00 p.m. Eastern. The shareholder letter discussing our financial results, the earnings press release, including a reconciliation of non-GAAP financial information to the most directly comparable GAAP information, along with the webcast of this Q&A session are all available at the company's Investor Relations website at [investor.cirrus.com](http://investor.cirrus.com). This call will feature questions from the analysts covering our company. As well as questions submitted to us via email at [investor.relations@cirrus.com](mailto:investor.relations@cirrus.com). Please note that during this session, we may make projections and other forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially from projections. By providing this information, the company undertakes no obligation to update or revise any projections or forward-looking statements, whether as a result of new developments or otherwise.

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

Now I'll turn the call over to Jason.

---



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

**Jason P. Rhode** - Cirrus Logic, Inc. - President, CEO & Director

Thank you, Thurman. Before we begin taking questions, I'd like to make a few comments. For a detailed account of our financial results, please read the shareholder letter posted on our Investor Relations website. Cirrus Logic delivered Q3 FY '20 revenue of \$374.7 million as higher-than-anticipated volumes of boosted amplifiers, haptic drivers and smart codec shipping into smartphones drove revenue above guidance.

GAAP and non-GAAP earnings per share were \$1.13 and \$1.41, respectively. During the quarter, the company was actively engaged with a variety of customers, and development activities were robust across new and existing product categories. We began sampling new devices, several new devices and continued to execute on key strategic initiatives. As we move forward through the next 12 to 18 months, we are excited to have a number of new products coming to market that we expect to bolster our leadership position in audio and voice and established a strong foothold with other signal-processing components beyond these traditional domains. Furthermore, we are pleased to have announced that John Forsyth has been appointed President of Cirrus Logic. As President, he is assuming a broader role in day-to-day business operations, while leading the company's product development teams and continuing to drive product-line strategies. As Chief Executive Officer, I will oversee the long-term growth and direction of the company. On a personal note, I'm looking forward to working with John in his new role. Before we begin the Q&A, I would also like to note that while we understand there is intense interest related to our largest customer, in accordance with our policy, we do not discuss specifics about our business relationship.

Operator, we are now ready to take questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Your first question comes from Tore Svanberg with Stifel.

**Tore Egil Svanberg** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD

Yes, thank you and congratulations on the strong results and congratulations to John on his promotion. I was hoping you could address the transition from 55 to 22-nanometer, I don't know, if you're prepared to share any time lines or the types of products that we'll be using that next-generation node?

**Jason P. Rhode** - Cirrus Logic, Inc. - President, CEO & Director

Yes. Sure, happy to. Yes, that's -- it's a -- we think 22 is going to be a really great mix signal node for us as 55 has been. It's certainly not the case that everything we do would need to migrate to 22-nanometer going forward. Generally speaking, it's a very different dynamic than a fully digital piece of silicon in that -- the analog componentry generally doesn't shrink anywhere near as much as the Moore's law curve would imply for digital.

So if you just took the same device and shrunk it from 55 to 22, you'd most likely make it more expensive. So there needs to, number one, be a real reason for doing that, which could be -- in our domain could be power, could be silicon area or board space. But more often, it's related to being able to embed a lot more digital signal processing content and the amount of processing power that we can bring to bear in 22-nanometer is really remarkable.

So it's a great result that we've got our first test chip back and a while ago this fall, really remarkable performance out of the box. Of course, there's things to work through and such. But that's brought the bulk of our IP down to 22-nanometer, so that it -- we'll be able to do things like -- really even more exciting smart codec and such in the long run. So really, not a lot of commentary about exactly what the first products would be and so forth. But you can imagine that we're doing that because we want to embed a lot more DSP capability.



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

As far as time line, that's still something that's a couple of years out. We're excited about the new stuff that we've got going on this year. We've got further new content that we're excited about for the following year. And most likely the 22-nanometer stuff would be beyond that.

**Tore Egil Svanberg** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

That's very helpful. And as my follow-up, you make several references in the shareholder letter to seeing the processing opportunities beyond the audio and voice domain. I know you've talked a little about -- a little bit already about closed-loop controller, but any other things that you're working on beyond the audio and voice domain.

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

Yes. I mean, we've -- the only thing we've really talked about is just kind of the haptic example of where we've taken our existing technology and broaden that out beyond audio.

The closed-loop controller, we don't -- we definitely don't have anything further we want to say about that other than that, that continues to be on track. There are additional things beyond that, that are in an entirely different domain, again, non audio, non voice for handsets that we're extremely excited about that would be in the year gone. So I think that's about as good a lineup, as I can ever remember us having and that continued -- and as kind of the 22-nanometer, the answer to the 22-nanometer question implied, there's kind of other good things in audio and voice as well long term.

**Operator**

Your next question comes from Matt Ramsey with Cowen.

**Matthew D. Ramsay** - *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

First off, John, congrats, well deserved. The first thing I want to ask about, I guess, Jason or John, one of the things I saw that you mentioned in the shareholder letter was -- and it wasn't in discussion around haptics and amps. It's a push into, I think, the top 4 Android OEMs. And I know you guys had mentioned significant traction with top 3 before. Is there something to read into that, that there is an expansion? I know, Jason, you described it as sort of singles and doubles with Android votes outside of Samsung in the past, but are things progressing there? And I guess, what are the levers that you're -- or what products are driving the expansion across OEMs, presumably in China?

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

Well, certainly, the most traction we've had in China is with the audio amps, followed by the haptic devices. There's a -- we've made good progress there. It is -- I would definitely still characterize it as kind of model by model, those accounts are definitely more singles and doubles than they are home runs.

But -- and we've been shipping to the bulk of the top 10. So there's always some movement both within the ranks of who composes the top 10, if you guys move up, if you guys move down, it's a little bit noisy. But we're doing quite well with the bulk of them. It's definitely not the same kind of dynamic as we would have with our larger customers, for example, where there's kind of a much more logical long-term kind of plan that we can march to.

It's an area where we need to be a lot more opportunistic. But those parts -- part of the reason those parts are doing so well there is that they were architected specifically to enable that kind of flexibility and let our teams add new functions and -- via software support and tools and of course, tuning and so forth is a critical element of a number of those devices. Both for audio acoustic contenting as well as haptic kind of what's the feel



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

of the device is going to be. So that's all been well received in China. It's a wide area of customers there. They've all kind of got their own drummer that they're marching to. And then, of course, the biggest guy in China has got its own complexity to it, obviously, this past year.

---

**Matthew D. Ramsay** - *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

Got it. I guess, as my follow-up, I wanted to ask Thurman about OpEX. There's a chart that you guys always put in the shareholder letter around headcount OpEX, and it looks like headcount is down, I don't know, 150, 160 people over the last 7, 8 quarters. There's some reallocation and restructuring around MEMS and a few moving parts. Maybe just talk about OpEx in the medium term, contrasting some of those actions versus the guys have been talking about quite a bit of investment for new products going forward? That would be helpful.

---

**Thurman K. Case** - *Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer*

Yes, with the -- we've reallocated those resources. But that is, as Jason's noted, we haven't seen as many opportunities as this in quite some time. So we'll continue to invest in R&D. When you start looking at SG&A that should mean -- should remain relatively flat for us. Our infrastructure is good, and we don't see a lot of investment on there. So in terms of how does it look on a year-over-year basis when you're looking forward to next year, just in general, we don't expect it to grow significantly because we'll still be catching up from the effects of what has happened over the partial pieces of this year that will be reductions that will show up for the entire year next year.

So with that happening, you won't see us just because we're hiring or things like that to increase revenue -- increase expenses on a quarter-over-quarter basis, significant.

---

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

Yes, this is Rhode. I would add to that, we talked about the MEMS thing a little bit last -- on the last call. And at this point, the people that were -- we were wanting to redeploy on that have successfully been redeployed, which was a big victory for the company. I think the team did an awesome job in doing that. The folks that we move to while they're disappointed to not follow-up on the carry, I'm following up on the microphone stuff they've moved on to one of these new -- these kind of new things that we were talking in response to Tore's question. And this is really tricky, fancy mixed signal stuff. They're excited to be working on it. It's got a very good prognosis of success. And I think that was probably -- you never want to stop activities like that. But redeployment of a very large percentage of those folks is a particular highlight, in my opinion.

---

**Operator**

Your next question comes from Blayne Curtis with Barclays.

---

**Thomas James O'Malley** - *Barclays Bank PLC, Research Division - Research Analyst*

This is Tom O'Malley. I'm on for Blayne Curtis, and I want to pass my congratulations to John as well. First, just -- first, just looking at the slide deck, you guys lay out \$1 billion same opportunity in 2024 for haptic drivers and closed-loop controllers. Most of the time, particularly with this new closed loop, you start with a lead customer, and that works its way down as the Android ecosystem and sometimes that presents challenges, given the custom design work you do for some of those lead customers, in particular, the big one. Can you talk about if you see opportunity elsewhere for products like the closed-loop controller? And particularly where in the Android ecosystem you may target?

---

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

I mean, that particular thing that we're developing, we -- we'll certainly keep our eyes on it. We don't -- that's not primary focus of that investment would be to trickle that down. There are certainly -- there are many things that we sell that are, haptics, for example, or audio amplifiers that are,



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

in fact, closed-loop controllers that, obviously, we do see opportunity. Again, that particular label is taking on a little bit of a life of its own that wasn't entirely intentional. But that particular thing that we've been talking about ramping later this fall is -- it's not really intended to be an Android thing at this time.

---

**Thomas James O'Malley** - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then just on the same chart, just right above, you talked about a stand for about \$1 billion for further adjacent mobile opportunities. Obviously, part of that historically could have been those MEMS mic. What other areas are you targeting there just because \$1 billion is still pretty big same there.

---

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

Yes, sure. Yes, that's another one of these areas that we're not going to want to get too far ahead of our skis on. But it's just yet another thing in a handset, non audio, non voice that directly leverages our advanced mixed signal and deep submicron capabilities. So it's something we're really excited about and wish very much that we could tell you more about it.

---

**Operator**

Your next question comes from Christopher Rolland with Susquehanna.

---

**Christopher Adam Jackson Rolland** - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Congrats on the good report and congrats, John. Talking about, let's say, haptics for a second here. You mentioned in the letter, something for media consumption. So do we think about that as like a vibrating remote or is it something still with a handset? And then, I think, you also mentioned gaming. Is that an opportunity for something like tens of millions of units over the next 18 months or so? Or is this just really starting with a small volume win?

---

**John Forsyth**

This is John. Let me take that. So I think, specifically, what we're referring to there is the level of enrichment of the user experience that we can deliver through haptics beyond the simple button replacement. So it's -- when we talk about gaming and media consumption, we're talking in the first instance about enhancing the smartphone experience, that can, for sure, extend beyond that, but that's the primary area that we're talking about.

To give examples of that, we've seen customers very interested, for example, in technologies, we've developed, which provides haptic feedback during playing video games, even if the game development didn't necessarily incorporate those functions within their products, the end user when they're playing the game, still get a lot of tactile physical feedback through the device, which deepens the experience. And we can provide the smarts to enable that kind of functionality and add that kind of richness to the user experience alongside the more traditional use of haptics in terms of providing the virtual button feedback and so on.

---

**Christopher Adam Jackson Rolland** - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Okay. Great. And then to the 22-nanometer codec. I know, Jason, you mentioned potentially more expensive silicon. I don't know if that was just the silicon if it only included analog or if that's an expectation for digital? And perhaps You can talk about differences in ASPs and margins versus your 55-nanometer? I know sometimes these changes caught investors by surprise in the past. Are there any changes there in ASPs or margins?



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

**Jason P. Rhode** - Cirrus Logic, Inc. - President, CEO & Director

So, yes. I've generally -- there's always ebbs and flows from a margin perspective. My generally -- would I -- my usual answer on that is not to think about node changes as being margin drivers one way or the other, they can be to a minor degree, but it should be a primary impact. The -- as I say, if you took our smart codec today and didn't change anything else about it other than move it from 55 to 22 that would generally make it more expensive on an -- from an ASP basis.

Certainly, though, the motivation to move it to 22 is to add additional digital content as well. So that should also be an ASP play in the long run as well.

**Operator**

Your next question comes from Charlie Anderson with Dougherty & Company.

**Charles Lowell Anderson** - Dougherty & Company LLC, Research Division - VP and Senior Research Analyst

My Congrats on the strong results and my Congrats John on the promotion as well.

**Jason P. Rhode** - Cirrus Logic, Inc. - President, CEO & Director

Charlie?

**Charles Lowell Anderson** - Dougherty & Company LLC, Research Division - VP and Senior Research Analyst

Yes. So I wanted to start with, Jason, we've only got a few months left in the year for you guys, and there's a lot of talk about content increases. I wonder, maybe, if you had any big picture view on fiscal '21 in terms of how that shapes up in terms of growth or otherwise?

And then I've got a follow-up.

**Jason P. Rhode** - Cirrus Logic, Inc. - President, CEO & Director

Yes. I do, actually. So as you know -- I mean, we don't provide annual guidance. There's a lot of moving parts, of course, it's harder probably impossible for us to know how they would -- they'd net out. We would love to be able to do that. But that said, some color on the moving pieces is probably helpful for you. And I'll just say here's some of those probably forward-looking statements that Thurman mentioned earlier. So we said last fall, we expected incremental new progress in hearables, wearables, tablets and laptops. Thus far, our silicon has been seen in untethered ear buds out there from multiple different customers. That's clearly a form factor that everybody is excited about. We're excited about it. We think it's a great platform to build on in long run. The rest of those new applications, meaning wearables, tablets, laptops. Those appear to be on track. So we should be able to benefit from those during the year and going forward. A lot of that's completely new content from us. And those are form factors that are getting a lot of attention as well. So we continue to expect to deliver new content in the handsets later this year. Further opportunities, we've kind of referred to that over the last couple of questions, further opportunities over the next several years. That said, there are often puts and takes to the overall content story that we're not able to get into for kind of obvious reasons. This year is no exception to that. We're very pleased overall with our position in handsets. I just don't want anybody to interpret that as meaning that every individual element of our business is up and to the right. Obviously, the largest driver of our revenue and revenue variability is handset volumes, which from other new sources are obviously doing very well currently. Of course, when new models are launched, it's one of those harder and possible things for us to know how they'll actually do, which makes it hard for us to call the full year.



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

But we currently have a very robust outlook there. So -- and then all of that, of course, is against the backdrop of this coronavirus issue, trade wars, the overall economy and tons of other things that are out of our control and beyond our ability to forecast. So we take a conservative view of what will happen and plan accordingly. And I think that's a good approach for investors as well. We do put a lot of thought, by the way, into our risk factors, and we've added one specifically related to things like the coronavirus. So I'll just add a reminder for investors to have a look at those.

---

**Charles Lowell Anderson** - *Dougherty & Company LLC, Research Division - VP and Senior Research Analyst*

Excellent. And then sort of for my follow-up, you've identified the closed-loop controller, I think going into calendar '20. And then there's this other opportunity is -- it sort of sounds like potentially the year after. I wonder, is that the proper cadence as you move into these adjacencies as another one a year? Or is that just this area, how it looks, just kind of thinking about your plan this long term?

---

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

I think that's just kind of how it's allowed. I mean, we would certainly -- and those are incidentally, both of these kind of new things that we're talking about our platforms that we would expect to be very strategically important and things that we'll be able to continue to build around in long run. So you may be -- I mean, this is actually just me speculating, but that's the kind of thing that we would expect to get on to a continuous improvement curve of been able to adapt and modify and then improve them, kind of like we do with the audio codecs or amplifiers, which is to say not every year. But the cool thing -- one of the many cool things about shipping into very high-volume handsets is that you've got so much unit volume that you can afford to revise the devices pretty frequently, which lets you add new value for customers. And the kind of not always be on the same part to the same customer year in and year out, which has got, obviously, some good dynamics to it from a pricing perspective.

---

**Operator**

(Operator Instructions) Your next question comes from Adam Gonzalez with Bank of America.

---

**Adam Gonzalez** - *BofA Merrill Lynch, Research Division - Research Analyst*

Congrats, John, on the promotion. In the opportunities that you alluded to beyond your core audio and voice domain, are these engagements broad-based or more narrowly focused across your top 1 or 2 customers, let's say? And then if we were to talk about it in terms of years of visibility into potential design wins, how far out do -- does your visibility extend at this point?

---

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

So. Yes, we're -- it's -- our current level of investment is definitely heavily focused at the top-tier of our customer base. As far as visibility, the bulk of our business, I think it's probably one of the least well understood things or maybe it's understood but not believed or something, but when we do a custom piece of silicon for somebody, we're often working on things that are 3 years away from actually shipping for revenue. And that's a big investment by customers in us. There's a lot of back and forth in supervision and making sure everything is lined up and eyes are dotted and teeth are crossed and so forth.

Customers generally are actually pretty good about not wasting our time, but they're always very meticulous about not wasting their own time. So they -- it's generally much bigger moving pieces for us or generally much more one at the design in phase rather than the shipment phase, which means we've got quite a lot of visibility of a particular sort. And what I mean by that is we know we're working on important things, and we sometimes know what they go into, whether it's a completely new form factor. Sometimes, we know exactly what it goes into, but we don't actually know what end feature the customer is going to enable with it, especially with our devices, where there's a lot of programmability involved. And then, of course, we never know the customers' marketing decisions that they're going to be able to make or promote more heavily or in this market or bundles or things like that, that we don't always have -- that we don't have any long-term visibility because they can change their mind in -- on a much shorter time line than, say, a new audio codec. We kind of -- if you've designed your phone around an audio codec, we're kind of know



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

you're going to need one, for example and so forth. So yes, I'd say we've got great visibility in a big picture sense. There's definitely some moving pieces that we often don't know until quite late in the game. But relative to most semiconductor companies, I would say it's -- that's definitely a strength for us.

---

**Adam Gonzalez** - *BofA Merrill Lynch, Research Division - Research Analyst*

Great. That's really helpful color. I appreciate that. And then my second question, I noticed in your corporate presentation that I think you added a slide, which put some context around the market opportunities that you're addressing. And it looks like you put it in the context of a \$45 billion on mixed signal opportunity. I'm just hoping maybe if you can explain the rationale behind doing that? Is it just a signal that there could be opportunities beyond the \$1 billion in adjacent mobile that you've identified across the near term?

---

**John Forsyth**

Yes, that's exactly right. This is John here. That's exactly right. And it's really just reflective of increasingly how we see our range of growth opportunities within the business. You'll see within that picture that we're portraying there, that we see no shortage of opportunities for growth within audio and voice itself. But as we've gone through the past few years, we've expanded initially into haptics as a beyond audio application of our core IP. We've made it clear that what we refer to as the closed-loop controller is kind of, again, fits into that category of being leveraging a lot of our core advanced mixed signal capability into a new domain.

As Jason indicated, we have a reasonable line of sight of some additional opportunities very much following the same pattern. But again, in new domains, beyond those we've spoken about previously. And you can expect to see us continuing that progress. I think it's certainly trying to -- as we move forward as we are increasingly seeing the opportunities around bringing low power, advanced low latency mixed signal, signal processing to a variety of product types. It was the case. If you go back 3 or 4 years ago, I think we would fully occupied just serving the audio demand in the market as the company has grown and as we've engaged with customers more broadly in new areas. That range of opportunities has grown into other mixed signal areas. So we see there is being a pretty significant opportunity to continue that progress and that evolution as we go forward in the coming years.

---

**Operator**

Your next question comes from Ari Shusterman with Needham.

---

**Ariel Jonathan Shusterman** - *Needham & Company, LLC, Research Division - Associate*

This is Ari. I'm taking a question for Raji Gill. And my first question is about anti adoption in the untethered headset market. Can you kind of talk about what you're -- you've been seeing in there? What do you view this trend moving forward?

---

**Thurman K. Case** - *Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer*

Look we -- so we do have headsets overall that -- Bluetooth headsets specifically that ship with our AMC, the untethered earbuds that are out there currently still do not, the performance that we targeted. When we originally developed, our AMC was targeted at being the absolute pinnacle from a performance perspective. And the issue with untethered earbuds is you've really got a constrained battery life. And so customers are much more focused on what they need to do to get the useful battery life of the product to be something sensible. So it's a pretty different approach to noise canceling. Longer term, we do think that's something of interest. We've got some activities there. We see a wide array of things that we can continue to focus on from a content expansion in the untethered earbud space. I wouldn't say that, that's the primary one of them, but it's potentially something we can work on over time.



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

**Ariel Jonathan Shusterman** - *Needham & Company, LLC, Research Division - Associate*

Got you. And as a follow-up, what have you've been seeing in gross margins? And how do you expect them to trend throughout 2020. Just kind of a rough idea would be very helpful.

**Thurman K. Case** - *Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer*

I mean, we don't see a ton of major drivers one way or the other there. I just continue to model it. We guide a quarter at a time. So that is what it is, but I would just kind of take that as the middle of the fairway. And not be looking for a lot of excitement on that front.

**Operator**

Your next question comes from Tore Svanberg with Stifel.

**Tore Egil Svanberg** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just 2 quick follow-ups. First of all, we talked about sort of OpEx to support the opportunities in signal processing but what about CapEx requirements? Are you sort of fine with what you have right now? Or will there be some new CapEx spend, especially for fiscal '21?

**Thurman K. Case** - *Cirrus Logic, Inc. - VP of Finance, CFO & Principal Accounting Officer*

No. I don't see this year seeing an uptick in our CapEx. We don't spend a whole lot. There might be some tools that we'll buy for certain groups. That are working on certain things. But beyond that, no, you wouldn't expect a big uptick in our capital expenditures.

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

Yes. Another thing, too, just from a run rate perspective of our various businesses, the MEMS stuff was probably a little bit more CapEx-intensive than the rest of it. So that piece, obviously, is tailwind for us from that perspective. But as usual, it's not a big driver. It's usually a really good opportunity. If we find areas where if you do see our CapEx tick up, but I would generally regard that as a good thing because it's us turning cash into something that is hopefully a sustainable long-term advantage, like the failure analysis and reliability lab.

**Tore Egil Svanberg** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

That's helpful. And last question, and correct my perception here, but it just sounds like you sound a bit more certain about getting more traction in the wearables, is that perception correct? And if so, is it primarily for boosted apps or something else?

**Jason P. Rhode** - *Cirrus Logic, Inc. - President, CEO & Director*

We kind of -- I think we're -- I mean, things, again, forward-looking statement. Things can always go wrong, but in plan of record, we should have some good progress in wearables, something we're really excited about. I don't want to get into real specifically exactly what we're doing there, but things that are within our warehouse. So yes, it's definitely -- clearly an exciting segment of the market that's getting harder as time goes on. And I think there's multiple cases where I can point to in the past where, whatever it is, we might not be in the very first generation, but usually by the time it gets real interesting then we've trained our custom silicon deliver on time. Really excellent execution machine on the opportunity and sort of picking these things off as they get ready for prime time.



## JANUARY 29, 2020 / 10:00PM, CRUS - Q3 2020 Cirrus Logic Inc Earnings Call

### Operator

(Operator Instructions) There are no further questions at this time. I will now turn the call back over to Chelsea Heffernan.

### Chelsea Heffernan - Cirrus Logic, Inc. - Director of IR

Thank you, operator. There are no additional questions, so I'll turn the call over to Jason.

### Jason P. Rhode - Cirrus Logic, Inc. - President, CEO & Director

Thank you, Chelsea. In summary, Q3 FY '20 results exceeded guidance as we experienced higher-than-anticipated volumes for component shipping and smartphones. During the quarter, development activities across all our major product categories progressed, and the company continued to execute on key strategic initiatives that we believe will fuel future growth. With a compelling pipeline of products that address audio, voice and other signal processing applications, we believe Cirrus Logic is well positioned for long-term success. If you have any questions that were not addressed, you can submit them to us via the Asked The CEO section of our investor website. I'd like to thank everyone for participating today. Goodbye.

### Operator

This concludes today's conference call. You may now disconnect.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.