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EDITED TRANSCRIPT

CRUS - Q4 2020 Cirrus Logic Inc Earnings Call

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OVERVIEW:

Co. reported FY20 revenue of \$1.28b.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic Fourth Quarter and Full 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 Forsyth, the company's President; and Chelsea Heffernan, our Director of Investor Relations.

Today, we announced our financial results for the fourth quarter and full fiscal year 2020 at approximately 4:00 p.m. Eastern. The shareholder letter discussing our financial results, the earnings press release, including the reconciliation of non-GAAP financial information to the most directly comparable GAAP information, along with the website -- webcast of this Q&A session are all available at the company's Investor Relations website at investor.cirrus.com.

This call will feature questions from the analysts covering our company as well as questions submitted to us via e-mail at 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 expressly disclaims any obligation to update or revise any projections or forward-looking statements, whether as a result of new developments or otherwise. Please refer to the press release and shareholder letter issued today, which are 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.



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I'll turn the call over to Jason.

Jason P. Rhode - *Cirrus Logic, Inc. - 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.

First, I would like to provide a brief update on COVID-19. Cirrus Logic's priorities have been to ensure the safety and well-being of our employees, their families and our communities worldwide while maintaining business continuity and continuing to provide outstanding support to our customers. We would like to thank the entire Cirrus Logic team for their efforts and cooperation over the past few months that have enabled us to rapidly shift the majority of our workforce to working remotely. Across the organization, everyone has done an excellent job adapting to a new work environment while remaining highly productive.

Turning to our results. The company reported FY '20 revenue of \$1.28 billion, up 8% year-over-year. Growth was driven by content gains, primarily in smartphones and, to a lesser extent, higher unit volumes. We are proud of our accomplishments this past year as we increased the number of components shipping into smartphones, gained share in tablets, wearables and truly wireless headsets and introduced numerous new components to address opportunities in voice, audio and other adjacent markets.

With approximately \$600 million in cash and no debt, we are confident in the company's strategy and strong customer relationships, and believe we're in a strong position to weather this storm and emerge stronger over the long run.

Before we begin the Q&A, I would like to also 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're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Matt Ramsay with Cowen.

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

Hope everyone down in Austin is hanging in there, given all that's going on. I just wanted to ask my first question. Jason, I noticed, in the shareholder letter, you talked about some new audio stuff specifically around premium tablets. And that includes a boost IC in addition to some of the other architecture that's typically there. Maybe you could talk a little bit about that sort of development of that road map, if that's something that might be more broadly applicable into the premium tier of the smartphone market, and just any kind of revenue opportunities that, that kind of architecture might bring?

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

Thanks. That's a good point to have picked up on. Yes, the new architecture that's really, I think, probably more tablet-specific, what Matt's referring to, is a fairly recently launched professional grade tablet, the larger of which features, I think, pretty close to a record number of our devices in it. It's really remarkable, and I have to say it sounds amazing. That's an architecture that's a little bit driven by benefit of being able to spread the

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speakers and also the amplifiers out in a high speaker count application. And also with that many speakers and that many amplifiers going on, it's quite a large peak currently being driven, which is a little more relevant on the tablet side than the handset side. We're already providing something -- we're already providing stuff that's pretty high performance amplifier-wise into the handsets. So there's always -- as time goes on, the best idea is from one product line kind of migrate over to another and back and forth and so forth like that, but I wouldn't expect our handset amplifier architecture to be changed too much. But that is a design win that we've been working on for a long time. Those devices were developed over a period of a couple of years as usual. And I just need to see that get out there and get the kind of reviews that it's gotten in terms of sound quality and so forth.

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

Got it. That makes sense. Just as a follow-up, and I guess this is maybe a broader 2-part question, you guys had been talking about some closed-loop controller content and some other additional content that might be ramping through the year. I assume maybe some -- obviously, there's unit uncertainty now given COVID and maybe a few schedule fluctuations, but maybe you could just confirm for us that nothing in the road map has really changed your expectation on content.

And then the second part is no secret that 5G is ramping, and there's a particular competitor of yours that likes to bundle audio content in with its APs and modems. Any thoughts around the 5G opportunity, particularly outside of your largest customer, as maybe modem share shifts around, if there's anything to call out there? Those 2 things would be helpful.

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

Sure. Yes, I mean, generally speaking, things in the near term horizon feel like they're on track to us. The 5G, we think, is -- we're agnostic to it in the sense it doesn't directly impact us, but hopefully it drives demand for a refresh cycle on handsets within Android. Historically, the bundling thing is really more applicable to the smart codec. And at this point, our smart codec exposure in Android is really pretty low. The bulk of our revenue there is from Android -- or is from amplifiers, whether in haptic and going forward, some other things that we hope to add to that. The ability to bundle those out is really pretty low. And in particular, that competitor doesn't have the specialty competitive amplifiers either. So we don't see that as being a huge impact.

Operator

Your next question comes from the line of Tore Svanberg from Stifel.

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

Yes. As you mentioned, (inaudible) go back (inaudible) you're making in the downturn. (inaudible) Do you have any specifics there in this business (inaudible) kind of more hedges things going and hopefully just and...

Operator

Tore, this is the operator. Your line is cutting out. We're not able to hear your question.

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

Hello. Can you hear me now?



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

Oh, there we go.

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

Yes. Yes. Sorry about that. So yes, Jason, I had a question about the investments you're making in the downturn. Do you have any specifics there? Or is it kind of just staying the course and not really adjusting much than you're already doing?

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

I'd say it will -- the ability to invest more to capitalize on the circumstances will probably come later. For the time being, we're just staying the course. We've already seen some of our competitors do stupid stuff probably because they have to because they weren't being managed in a fiscally conservative way. But people announcing 10% pay cuts across the board or suspension of bonuses or whatever, we see that as a really good way to wreck a company to the extent it wasn't already wrecked. So we're going to carry on doing what we're doing just like we did in 2008. We've got a great plan. We've got some of the best customers in the industry that typically employ a similar strategy. And so we'll just carry on making sure we're able to deliver. That includes hiring people, which we expect to -- have that be somewhat challenging over the next handful of months. But we've already brought some good folks on board this current year.

Longer term, who knows? In the unlikely outset, maybe we'll turn some real estate seller -- or accumulators and often into sellers and be able to consolidate all of our folks back into a building or whatever it might be. But it's the kind of things that we took advantage of in 2008 that still pay dividends for the company that are often opportunities that you don't get when everything has gone extremely well for the overall industry. So no specific plans on anything other than staying the course and then hiring when we're able.

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

That's helpful. And as my follow-up, fiscal '20 was certainly a year about share gains in accessories, tablets, wearables, headsets. Where are we in that? Would fiscal '21 still be a big opportunity for those types of share gains? Just kind of trying to understand on a relative basis what kind of inning we're in as you continue to gain share, especially in more accessory-type applications.

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

Sure. Well, I mean, it's a pretty good bunch of opportunities within the high-volume handsets as well. But yes, I mean, hearables, we've -- you saw the progress we made over the course of last year with a couple of big flagship folks. We're broadening out those product lines. We're working on finding other customers that are the sort that we can really support and do our thing.

Wearables. Other categories of wearables is still in front of us, still on track. We're still really super excited about it. Laptops are a little further out. We talked about tablets in relation to -- or in response to a question earlier. So that's all still good. Still the biggest stuff is handset-related. And we do continue to expect good content that is new from us coming in the fall time frame. I will say, I pointed out on the last call that the ROACE stuff aside, there's often puts and takes on the content story, and we expect that to be the case this fall. But overall, we expect to exit this fiscal year in a stronger strategic position. Meaning, this stuff that we provide is even stickier than what we do today and our product lines that we can build around in that meaningful content too overtime to become product lines rather than spot products. So regardless of how that nets out in this crazy environment, that's kind of how we see that stuff going and where we are on that trajectory.

I suppose in the -- given that there was a whole bunch of those forward-looking statements that Thurman mentioned a second ago or a minute ago, I'll also point out that we've added a section in our shareholder letter at the end following the safe harbor. So just in case you tune out when you get to the safe harbor, you shouldn't. And we've added a statement in there since our 10-K won't be published for a couple more weeks. But we wanted to highlight some of the particular risks we see in play given the pandemic and related issues. Obviously, we'll have a full set of risk



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factors, new ones updated in our 10-K filing. We spend a lot of time preventing all these things, trying to prevent these sort of things from happening, but they do happen, and every investor should review them and be aware of the real risk in our industry.

Operator

Your next question comes from the line of Blayne Curtis with Barclays.

Blayne Peter Curtis - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

Maybe to start, Jason. I was a little confused. You said that there's always puts and takes and that you're trying to signal something. I think most people were expecting you'd add content. Is there something that I guess we should focus on in the negative column? And then I'm just kind of curious to your perspective. With all this disruption, you said you're updating the risk factors. But there has been some concern of delays in getting handsets -- flagship handsets out. I'm just kind of curious as you look through the slope of this year, is there anything to think about in terms of the shape of this year versus historical new patterns if there is a delay?

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

Yes, sure. Well, I mean, on the puts and takes, there's lots and lots of people that read or listen to our earnings calls. It's usually the case that there's puts and takes. And so when we're -- when I go on a long paragraph like that of, here's this and this and this that we're all adding, there are categories of people out there that wave a big red flag if there's one other one that you didn't talk about that wasn't going up into the right. So that's where that comes from. As usual, when products haven't launched yet, we can't get into a lot of details. But as I said, overall, I'm happy with where our position will be when we are coming out at the end of the fiscal year. And I should point out, I didn't -- in that paragraph of ROACE stuff, I didn't talk about the content gains we expect to see from other new technologies within handsets in calendar '21, while calendar '21 is likely larger than what we see right now. That's a good long ways away from now. So more things can change over that time horizon, but that's the plan as we see it today.

As far as the shape of this fall, we -- our crystal ball is not that good. And that is, I'm sure, featured in some of those risk factors. The September to October quarter transition is always difficult to call just because we're usually ramping really heavily across that quarter boundary. We -- I mean, we would expect this one to be more so. I would expect the timing to be more in flux or difficult for us to envision by the time we even get to the July call. I think that one will be a more difficult one for us to provide comprehensive guidance. We'd certainly hopefully be able to do so.

We have a pretty comprehensive process for determining our guidance. We look at all the public available information, speculation and otherwise as well as all the stuff that's confidential and specific to us, backlog, short-term and long-term forecast, build plans, bunch of other stuff. Our goal is always to provide guidance that's useful and conservative. We think that's the case this time. We have, as you saw, broadened the range out a little bit under the circumstances, reflecting the uncertainty we see. But frankly, we feel -- and as always, our recommendation, as you model the midpoint, and then, of course, be aware if we ever do end up outside of our guidance range, which is really rare -- on the downside at least, it's really rare. It's a lot of times the case that we don't provide an update until we get to the next earnings call. But yes, as far as the shape or when the things that are of extreme interest might launch relative to normal, I don't know yet. I expect they will, and we'll all be excited about it. And our content story is what it is. And so what -- how that gets interpreted, we'll just have to see. We're ramping to support it already. We would expect to grow inventory in support of that ramp. So I don't see that. That timing is particularly germane to the health of our business. Obviously, if it's earlier, that's nice, but it'll -- that's not under our control.

Operator

Your next question comes from the line of Adam Gonzalez with Bank of America Securities.



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

On the first one, I know you had said before, it seems like some of the content gains you had talked about for the second half are on track, but I was just wondering if you could comment perhaps on if your interactions with customers have changed at all about future design wins, perhaps in 2021 and beyond, given the broader economic uncertainty. Did you just see any change in customers' willingness to adopt new features beyond this year or investments proceeding as planned?

John Forsyth - Cirrus Logic, Inc. - President

Adam, this is John. I would say, no, our customer interactions have been very consistent with the way they would normally be at this point in the annual cycle for planning and so on. What is clear is that they have a pile of additional challenges in meeting their road maps and their programs. And so we're doing everything we can to continue to support that. There's been an incredible effort across the Cirrus Logic team, both the engineers and then all the teams around them, who support them in their roles to keep our customers on track or as close to that as we possibly can with their product programs. But in terms of the appetite of those customers for talking about new stuff, planning new stuff, I wouldn't say we've seen any significant change there. I think that's highly reflective of the fact that our partnerships and our customers tend to be with those who are the biggest in the industry, who tend to manage for the long term. So we see them as hungry as ever for new stuff and as determined as ever to deliver great products this year and next.

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

That's helpful. And my follow-up, I just wanted to talk about the supply chain. It seems like you guys have been relatively less impacted relative to some of your peers, at least in the most recently reported quarter. What exactly has enabled you guys to weather the storm better and outperform there? What about your supply chain?

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

I'd say there's a couple of unique things about Cirrus. So many of our products are relatively new or so much of our revenue is derived from products that are relatively new. That makes a big difference. If you're a company that's got an inch-deep, mile-wide product catalog that has been developed over a span of 20 years, you're trying to source 40-pin plastic PDPs lead frames right now, good luck, that's going to be really hard. Or you're on your own tester platforms that are only available in one assembly test house and that one happens to be shut down, you're going to have a problem. We're modern processes for well over 90% of our revenue. Modern packaging, almost everything we ship is wafer-level chip scale. And even -- and we have great large foundry partners referred to in the shareholder letter that just did a stellar job last quarter, both global foundries and TSMC. And on the assembly test side, we work with all the flagship folks in the industry and we've usually got a way to manufacture each particular device at multiple different assembly and test houses, not so much on the fab side, but on the assembly and test side. So that gives us a lot of flexibility where folks, where the business is composed a little differently, probably have got a lot less room to maneuver.

Operator

Your next question comes from the line of Christopher Rolland with Susquehanna.

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

Forgive me if this was already answered, I joined a little late. But now that we're getting closer to the launch of the closed-loop controller in the fall, I was wondering if you guys could talk about the potential TAM there for that market over time. And then also, if you could give us any update on gross margins or ASP or even OpEx spend related, that would be great as well.



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John Forsyth - *Cirrus Logic, Inc. - President*

Yes. This is John. I mean, I think previously, we've talked about the ASP opportunity there as being -- easiest to think of that as being amplifier-like in terms of magnitude. The TAM there, I mean, it's -- there's a degree of uncertainty about that. We make products, but we don't often have great line of sight into exactly how they get configured across different tiers and so on with our key customers. So we'll have to wait and see on that. But yes, ASP-wise, I think we see that as being easiest as thought of as being around the amplifier level.

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

And just to your comment on trends, I would just add. ASP has trended down as our volumes have grown. Certainly, amplifiers, haptics and some of this newer stuff we're talking about for the current year is lower and would again cause volumes to go up quite a lot and ASPs to come down somewhat. Margin-wise, it should be pretty consistent with where we've been running trend on the trend side.

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

Great. Just related to the TAM, if maybe you guys could comment on whether you think this is going to be adopted by Android and other handset OEMS, what are the possibilities there? And then maybe talk about competition. Would you expect competition to rise to the occasion pretty quickly here if there were other opportunities?

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

I mean it's a pretty flagship product. It's often the case that the Android community or other customers would benefit from adopting stuff other of our customers are doing, but they usually aren't willing to spend the money to achieve quite the same level of results. So never say never, it could happen over time. But it's not a primary driver of where we're at with that. So yes, I think that's kind of the color.

Operator

(Operator Instructions) Your next question comes from the line of Charlie Anderson with Dougherty & Company.

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

I'll try not to repeat one since I joined late as well. I think there's sort of a theory out there that if the pandemic makes us all want to touch surfaces less, we'll-- we'd like to use our voice to input authentication. So I'm curious, if that's the theory and that seems logical, but have you actually seen it in the pipeline? Or any conversations with customers that can create pull-through for your products? And then I've got a follow-up.

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

Charlie, well, talking about puts and takes, we've obviously got 2 product lines there. One which is haptics, which pretty much relies on people touching surfaces, and one which is voice authentication and voice interface-enabling technologies, which allows people to interact with machines without doing that. We haven't seen any kind of significant impact on customer thinking as a consequence of that. I mean, it's maybe just early in the game to encounter that kind of thing as yet. But as we mentioned in the letter, we are certainly encouraged about the conversations and progress we've been making with our customers around the secure voice authentication technology. So yes, we're certainly hopeful that, that can be part of the user interface and user experience solutions that help people more with touch-free interfaces in the future.



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

Okay, great. And then for my follow-up, you obviously have a great balance sheet right now. I wonder, incrementally, are M&A opportunities any more interesting? I know the market sort of jumped back, so maybe valuations aren't as attractive as maybe they could have been. But just sort of curious on your view there relative to other uses of cash.

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

Well, I mean, M&A remains our highest and best use of cash, if we think it's a property that's going to work out. And we're, I mean, frankly, a little bit probably less sensitive to valuation than we are to -- whether it's a really good strategic fit, a quality property. We haven't seen a lot that's meaningful. I mean, we're always talking to folks who were starting to pay a little more attention to kind of the incubatory-type phase of things just to stay current on what's happening and where things are going. But as far as needle-moving M&A, we haven't seen anything in a while that's of notable interest. But we're certainly keeping our ears to the ground. And maybe if things get -- if that could be one of those things that we referred to in Tore's -- in response to Tore's question about what can you spend money on, if this thing is protracted and then starts to cause larger companies difficulties like the last recession did, we maybe get the opportunity to see some carve-outs and things like that. There's not -- as far as stand-alone companies that are out there on their own that we could acquire that move the needle, there's just -- given the consolidation over the recent years, there's not been -- there's not that many of those that exist. So it's probably something a little more unconventional, unconventional if it's going to move the needle in the short term. Probably more focused on little tuck-ins here and there, but we're pretty mindful not spreading ourselves any thinner geographically as well. So nothing really has changed there yet, but that, of course, is a key focus of a bunch of our folks.

Operator

Your next question comes from the line of Ari Shusterman with Needham & Company.

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

This is Ari taking the question for Raji Gill. So first, I wanted to start off by asking about your voice biometric solutions. And yes, I think you talked about some of the traction you've been seeing in this market and kind of paint a picture of the TAM that you expect in the next few years for it.

John Forsyth - *Cirrus Logic, Inc. - President*

Ari, well, we've spoken a little bit in past calls and letters about the fact that there's a range of technologies there, which gets grouped under voice biometrics. Some of those technologies go towards just enabling the always-on voice interface, some of them have to do with secure authentication of the user and some of the others, such as anti spoofing, are enabling detection of when there is some kind of malicious replay attack or replay of a recording of somebody's voice and so on. So it's really a whole suite of technologies where we are actively engaged with customers, looking at how those fit into their product and into their system architecture. So I think we're optimistic and hopeful that we can get that -- get some of those technologies designed into customer products. We've been very encouraged by the engagement we've been having over the past year there.

As regards to TAM, we'll -- this market has moved slower, I think, than we expected. As we mentioned last year, I think FIDO, the standards organization, kind of putting a rubber stamp on our stuff and just generally tilting the industry more towards standards-based biometrics. I think that is one significant potential enabler for the industry. Our belief is that TAM-wise and market opportunity-wise, this remains a really exciting area. Just to be able to do anything you want with your device via the voice interface without having to use some other means of authentication is really -- there's a case for that technology being integrated into everywhere that we currently use the voice interface.



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

And just a quick follow-up. So you previously talked about the transition from 55-nanometer to 22-nanometer. Can you highlight the advantages of this transition? And perhaps if you have any information on the time line for such products? And any color on this would be very appreciated.

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

Sure, yes. Time line-wise, think of this as being some distance out. When we undertake a migration of technology down, in particular, our mixed-signal IP, down through the deep submicron nodes where -- that is a very large effort. You would only undertake that if you saw a really significant meaningful benefit to your customers for some product categories, in particular product categories which combine the mixed-signal IP or key parts of the mixed-signal IP we have with significant quantities of digital processing as well. So the -- as you go down from 55- to 22-nanometer, the cost and area -- well, the cost associated with your analog IP is typically going to rise. The logic for doing -- undertaking that transition is really so that you can build more processing and more smarts around the analog to digital boundary. So -- and the reason for doing that processing very, very close to the A to D boundary is where you're doing stuff which requires this extremely low latency response rate that we've highlighted as being a characteristic of a lot of our products, such as haptics, such as noise cancellation, such as a number of other things we're doing in the closed-loop controller domain, those categories of functionality is where you need to do a significant degree of digital processing in very rapid response to the A to D conversion. Those are the kind of use cases that we're focused on and which are really driving us to migrate our IP down there. We've indicated that that's -- that the product category which sees the greatest benefit from that is around the smart codec space right now. But obviously, undertaking that transition gives us a really great platform of our IP at a new process node, where in the past, when you look at what we achieved on the back of the migration to 55-nanometer and then our amplifier technology moving to 55 bcd process, that -- those transitions have been a very significant benefit to us for many years in terms of what we're able to do relative to our competitors.

So think about it as a multiyear thing. Think about it as a major engineering undertaking, but one that lays the foundation for the subsequent generation of products and we believe meaningful advantage over what the competition can do.

Operator

Your next question comes from the line of Tore Svanberg with Stifel.

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

I just had a follow-up for Thurman. Thurman, the tax rate's coming in a little bit higher than what I put for fiscal '21, and you also made a reference to the CARES Act. I was just wondering what's going on there.

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

Well, the effective tax rate can move around on any given year, and we're seeing that up. But if you look at the tax rate for the year, it was well in line with what we were talking about.

The CARES Act, we didn't get a whole lot of advantage out of the CARES Act. We weren't able to take it. We either weren't eligible or we were -- it was of no value to us on a lot of the things that were in that. One of the anomalies with that, though, was the accelerated depreciation on the leasehold improvements. When you did that, you got some extra tax credits on the U.S. side. But that actually flows through our overall tax structure, and we ended up actually having a lower effective tax rate which offset any of those benefits. So we -- again, when we look at the year, there's a lot of things that affect it. And there's really nothing into -- nothing's really changing. The one thing that we didn't get that we expected moving into the coming fiscal year was the U.K. tax rate was expected to drop to 17%, but it actually stayed at a higher level. But that really doesn't drop our rate or affect our rate because we were already at that rate. So that's something that we thought we could take advantage of, but we won't be able to now into the coming year. But that effective tax rate can move around.



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

Very good. Just one quick one on the inventory. So it looks like your inventory days are quite a bit lower now than when you typically exit the fiscal year, at least compared to last 2 years. I assume that was probably related to the supply chain disruption. But do you expect to kind of get back to normal by the June quarter?

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

Well, we would expect that we'll begin to -- we've said that we will increase inventory in this quarter. And again, how much inventory we build depends on what our customers' demands are and multiple ramps that happen over a multiple period of time and so forth. But we do expect it to grow this period, and it will begin to with -- we can't guess, as Jason's talked about, where the numbers are going to fall out or what things are going to look like all the way through next March quarter. So that could move it around. But we're okay with where the inventory is.

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

Yes. So I mean, it's hard to answer when you view it as days. When you view it as absolute dollars of inventory, it's a little more directly predictable. We would expect to grow that and bounce it around.

Operator

Your next question comes from the line of Raji Gill with Needham & Company.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

Yes. I'm joining a little bit late, so I apologize if this was asked already. But regarding kind of the traction that you're seeing in the closed-loop controller, you had mentioned in your prepared remarks that you're seeing traction there. Can you talk about some of the benefits or the advantages of the closed-loop controller? And I think in the past, you talked about an ASP range as well. So I'm wondering if you could kind of explore in detail in terms of those concepts.

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

Yes, we did actually already, but I'll just highlight it for you. ASP, think of it similar to an amplifier. It's a little more complex because it does depend a little bit on mix. It's -- there's potentially multiple ways to put these things in a system. So that can vary a bit.

As far as the use and functionality of it, we'll just have to wait for that to get out there. There's certainly some rumors already that have built and other things that have kind of come to light out in the third-party universe that have kind of shed a little bit of light as to what it's being used for. But suffice to say, the intent is to deliver a pretty remarkable -- clearly, the intent is to deliver a pretty remarkable user experience in a new avenue of stuff than we've provided in the past.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And on the untethered digital headsets, the growth there, the kind of the sharp uptick that you're seeing in revenue. Wondering how you see the TAM opportunity for that market. Do you see an uptick in these type of headsets given the COVID situation, given that people are working from home and need more headphone capability?



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

I would say across the board, whether it's tethered or untethered, we're -- we see more demand for headset-type products than we would have expected. Definitely, people are -- whether people are looking for a premium experience because they can afford it and are on them all day every day, or they aren't on them all day every day and so they need a new one of whatever the cheapest thing is they can connect to their device. We're in kind of both ends of that spectrum and those product categories have definitely done well for us.

Operator

Your next question comes from the line of Matt Ramsay with Cowen.

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

Just a quick one, Thurman, on OpEx. It looks like you're down \$6 million or something like that in the guidance from a couple of quarters ago. And there was the MEMS exit, and I would imagine some belt-tightening given the virus situation. But you guys have mentioned still investing through the cycle here, which is good to see. So if you could just give us a little help as we go forward about non-GAAP OpEx levels that we should consider for the rest of the year, that'd be really helpful.

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

Well, we would look at SG&A as being something that won't grow. We can -- there are ways to find some leverage on the SG&A side. On R&D, given the base that we're looking at, I mean as has been noted by Jason, and in the letter, that we will continue to invest in R&D. We could see slight increases along those lines. But again, we got to be able to hire people. And there's a lot of different things that have to take place, but we'd expect that to grow slightly.

Operator

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

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

Thank you, Chelsea.

In summary, as the global community continues to confront the COVID-19 pandemic and unknown economic consequences, Cirrus Logic is fortunate to have a strong balance sheet and solid relationships with the leaders in the markets we serve. Our outstanding teams in engineering, supply chain and operations are actively engaged with our customers and vendors to ensure we meet production requirements and execute on new product developments and key strategic initiatives.

As we move into FY '21, we are optimistic about our ability to gaining content with new and existing customers across a range of end devices. With an extensive intellectual property portfolio and a robust product road map, the company will continue to invest in key technologies that we believe will drive meaningful opportunities in the future.



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I'd also like to note that we expect to participate in virtual conferences hosted by Cowen, Bank of America and Stifel this quarter. Please check our investor site for all the details. If you have any questions today that were not addressed, you can submit them to us via the Ask the CEO section of our investor website. I'd like to thank everyone for participating today. Goodbye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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