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Cirrus Logic, Inc. (CRUS)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic First Quarter Fiscal Year 2022 Financial Results Q&A Session. At this time, all participants are in a listen-only mode. After a brief statement, we will open up the call for questions from analysts. Instructions for queuing up will be provided at that time. 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 Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

Thank you and good afternoon. Joining me on today's call is John Forsyth, Cirrus Logic's Chief Executive Officer; and Chelsea Heffernan, our Vice President of Investor Relations. Today, we announced our financial results for the second quarter fiscal year 2022 at approximately 4:00 PM 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. This call will feature questions from the analysts covering our company, as well as questions submitted to us via email at investor@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, as well as other corporate filings made with the Security (sic) [Securities] (00:02:40) 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 John.

John Forsyth

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

Thank you, Thurman. Before we discuss our results, I would like to make a few comments on today's announcement that Thurman is planning to retire from his position as Chief Financial Officer. I want to take this opportunity to thank Thurman for his outstanding dedication and commitment to Cirrus Logic over the past 21 years. All of us here greatly appreciate his many contributions to the company's growth, and to the development of a world-class finance organization during his nearly 14-year tenure as CFO.

Thurman will remain in his current role, while we conduct a comprehensive search to identify his successor, and will work to help ensure a seamless transition to that successor in due course. I want to thank Thurman sincerely from all of us at Cirrus Logic, and wish him all the very best in this next chapter.

In other news before we get to the quarter's results, I'd like to say how excited we are to have recently welcomed Raquib Hussein to the company's board of directors. Raquib has a deep knowledge of the semiconductor industry, strong technical expertise and a track record of both operational and strategic success. We believe he will be an extremely valuable in addition to the Cirrus Logic team, as we look to continue our growth momentum through innovation in mixed-signal products and expansion into new technologies and markets.

Turning to the results now, Cirrus Logic reported record revenue and earnings per share in the second quarter while also delivering year-over-year operating profit growth. Revenue was \$465.9 million, up 34% year-over-year and our highest ever for the September quarter, due in large part to the ramping of components ahead of customers' new smartphone launches.

During the quarter, we also made great progress on the strategy that we have outlined to diversify meaningfully beyond audio, passing, as we did, several major milestones in the high-performance mixed-signal products area of our business. These included increasingly attach rate of our camera controllers and smartphones, bringing a new power conversion and control IC to market, and sampling new fast-charging products to our general market customers. These accomplishments represent a significant expansion of Cirrus Logic's technology and product mix, with our high-performance mixed-signal business delivering 30% of total revenue in the first half of fiscal 2022, up 117% from just a year ago.

As we discuss in the Shareholder Letter published on our website today, we continue to be very excited about the opportunities these new technologies offer for further growth and diversification in the future.

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 relationships.

Operator, we're now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And the first question comes from the line of Matt Ramsay of Cowen. Your line is now open.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Q

Thank you very much, good afternoon, everybody. First off, Thurman, congrats. It has been great to work with you down the years, and all the best going forward. For my – I guess, my first question, John, congrats to the whole team on getting Lion Semi closed. I wanted to pick your brain a bit, if you think about your current power IC road map and the technology and the people that you would be acquiring from Lion that are now within the company, can you ballpark for us what kind of integration efforts might be underway to bring those two product lines together, and what kind of timeline could we look at as sort of a minimum and then I guess a realistic timeline of when you could have product in market that would be fully integrated between the two company's? Thanks.

John Forsyth

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

A

Thank you, Matt. Yeah, I'll try to talk to that. I want to explain that some of the way we think about this is that we really want to give more ammunition to the Lion team and help them build out their road map and expand across customers and into other new markets as rapidly as possible. Of course, integration is a goal, because we believe the technology that the Lion team had developed can be highly complementary to other things we're doing, but actually, the first priority is execute on pretty significant raft of opportunities they have in front of them. The second priority is continue to expand that and accelerate the road map, and then the third priority is exploit the synergies between those technologies and other areas of our business.

So, right now, Clearly, Lion, the team there has seen a lot of interest within certain smartphone vendors, they're running extremely fast to execute on that and then continue to expand it, because that's still a market that has some ways to go in terms of rising expectations and demands on performance. So, we're excited about that, but then we also believe that there are other product categories that can benefit from that charging technology.

Now, so all of that's by way of saying our initial focus is really just helping the Lion team execute, scale up a bit, and so there's more of the demand that they have in front of them and we're really – it's an amazing group of people that we got there, we're super excited to be doing that, and then increasingly we do see further down the road, opportunities for synergies between the Lion technology and some of the other IP that we've been working on. I think we're – we haven't laid out a timeline for that yet, but that's something we're very excited about internally. Just to give you a little bit of flavor for that, we really believe that having the opportunity to innovate simultaneously both in the charge path and the discharge path around the battery, so really being able to deliver the silicon that sits around the battery, can deliver great value to our customers' products in due course.

The Lion IP and technology clearly represents the charge part of that, and then a lot of what we've been doing elsewhere, is more focused on the discharge path. So, it's highly complementary, it'll take us a while to actually converge given the number of opportunities that the team is addressing in the nearer term.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Q

No, I really appreciate all the color there, John. As a quick follow-up, it's been topical over the last six, nine months that in certain portions of the notebook market and that all your codecs from some other suppliers have been a bottleneck and you guys have called out in the letter and maybe on the, I think on the last earnings call as well, opportunities for Cirrus to grow into the notebook market. I guess, [ph] or (00:10:01) maybe you could help me quantify how large those opportunities may be in the next six, 12, 18 months? And, John, do you consider that strategic business or opportunistic business, and how are you investing there? Thanks.

John Forsyth

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

A

Yeah, that's a great question. Thank you, Matt. The nature of the comments in the letter were actually intended to tease apart the opportunistic and the strategic elements to it, because there's a bit of both. And, I think when we talked about seeing revenue grow in our laptop engagements, there was a little bit of reaction that, yeah, well, the supply chain disruption created opportunistic situations where that could occur, which to be clear has been true to date, but there were also some meaningful underlying factors that are strategic for us.

So, we've picked up a reasonable amount of codec business, especially over this year, we'll continue to build on that. I think there are reasons why a number of those customers will want to continue using our technology, we tend to be fairly difficult to dislodge once we get in somewhere, but the underlying factors, which is actually what we were shooting for originally, of a transition more towards boosted amplifiers, a transition towards potentially haptic trackpads and that kind of growing requirements around audio and video, those were things that we saw happening with or without any COVID-related supply chain disruption.

So, those represent a decent opportunity for us to continue to grow. Our estimate of that over the next five years is it that looks like something along the lines of a \$400 million SAM for us to tilt at, so that's focused on the segments where we would play, it would tend to be at the upper end of the notebook market, it would tend to be the devices which are really focused on premium performance and being [indiscernible] (00:12:13) and having very high power efficiency and so on, but given that we see opportunities across audio, maybe haptics, maybe power in those segments, it means the total ASP per device, total content per device may actually be pretty significant that's reflected in that SAM.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Q

Thanks very much, John. Congrats again, Thurman.

Thurman Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

A

Thanks, Matt.

Operator: Next question from the line of Tore Svanberg of Stifel. Your line is open.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yes, thank you and, yeah, let me echo, say congratulations to Thurman, going to miss you and since this may be your last earnings call, you will get the first question, Thurman. So, could you elaborate a little bit on the \$255

million payment for GlobalFoundries. How is it going to work out as far as securing the extra capacity? I mean, is this a one-time payment and then what you get in return?

Thurman Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

A

Well, I mean essentially, there were two pieces of this. We paid \$225 million of capacity reservation in wafer supply commitment, \$175 million of that was prepayments for wafers. [ph] And, further out in history, actually, it was about (00:13:40) foreword and it'll – that'll last through 2026. And then, there was a \$50 million of a reservation fee, and that'll be amortized over the life of the contract. So, that's how those will show up.

In addition to that, during the quarter, we exercised an option for a new technology – to support a new technology which essentially resulted in \$10 million more of non-refundable capacity reservation and the \$20 million more prepayment. So – and this was a technology that we did not have visibility when we – it was part of the first agreement and as we got more visibility for the opportunities associated with this, we decided to take that option and, by the way, this type of investment will see revenues quite a ways down the line, so this isn't going to be something you would see immediately.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great, thank you for that color. And maybe as a follow-up to John and kind of related to that agreement, obviously, you're trying to drive the high-performance mixed-signal business much higher and you mentioned moving to the 22-nanometer node. Is this related to that, or to Thurman's point, does this go beyond that?

John Forsyth

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

A

Yeah, no. I would think of those two things as being separate, Tore. The 22-nanometer investment that we have been making, and you're right, has been going to quite some time and is pretty well advanced. So, there isn't really additional kind of technology enablement fees that we envisage relating to that. There will be a place for 22-nanometer we believe in both audio, and our high performance mixed-signal business areas, so it kind of cuts across those two. The additional fees, and technology enablement investment that we made with Global that Thurman was referring is outside of that. It's not related to 22-nanometer. It's related to some other technology which would serve products in the high performance mixed-signal area for us. That was something where, as Thurman says, at any one time we've got a bunch of new opportunities we're working on that should represent some SAM expansion for us. One of them was kind of we were working on it during the time we were cutting that agreement with Global, but it wasn't something that we felt we'd [ph] land it (00:16:20), but it was a significant opportunity for further diversification, and revenue growth. So, we kind of put a provision in the agreement for it, and then obviously much more recently activated that given that we got more confidence and line of sight [ph] over (00:16:39) the – our ability to win that opportunity, and then go ahead, and execute on product related to it, but that's in a new area that's not covered by the 22-nanometer commentary we've previously provided.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thank you for that. Just one last question. Could you talk a little bit now about the attach rate of the camera controller? I mean, are we talking about sort of one-for-one? And as you mentioned next generation in this area, should we expect like new devices every year, or is it more every two years? Any color there would be great.

John Forsyth

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

A

Yeah, thank you for the question, Tore. I don't think we know for sure what the cadence is going to be around the camera device updates, I think, and I say that because if you look across our other product lines, the cadence varies over time. When you go through a period of accelerated innovation, then it can be a fairly rapid evolution, and then it can stabilize for a while. In the case of the camera investment we would be making, to-date, really what we've seen is a growing attach rate based on the same solution from us, but as I've indicated elsewhere, we've got a really good road map, and a really solid amount of investment across innovations in that area, and I think it's a reasonable expectation here.

We don't want to talk in detail about our customers' product plans, but I'm on fairly safe ground given that for the most part, I don't know them in relation to this area, but I think if you look at what we are planning to do, and what we're investing in, I think you would probably see some kind of patent whereby we're bringing in increased functionality at the top end, and then there is some mix of those devices in -across the products over time.

The attach rate obviously on this cycle has risen, and that's been really very positive for us. It again has been one of the drivers of that growth in high-performance mixed-signal revenue that we've seen which is very important for the company. And then also just if you look at the total content that we see across some products now, the upper end of that, there are smartphones in the market now with eight of our products in them, so four of which are high-performance mixed-signal category products, and four of which are audio category products. So that's a really, really positive trend from the point of view of driving that increased product diversity, and technology diversity. Obviously, in the long run, we want to continue that path and diversify the revenue as it grows as much as we can.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Sounds great. Congratulations on the results.

John Forsyth

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

A

Thank you, Tore.

Operator: Next question from the line of Blayne Curtis of Barclays. Your line is open.

Blayne Curtis

Analyst, Barclays Capital, Inc.

Q

Thanks for taking my question. I offer my congrats to you as well Thurman. Maybe just first I wanted to ask. If you look at the revenue outside your largest customer, it's up about \$50 million. I think that's around the level that you were talking about for Lion. I was just kind of curious how that came in post the acquisition. And I'm kind of just curious as you look at that bucket, you have a lot of moving pieces outside your largest customer now. I think there is a lot of thoughts that maybe the Android handheld handset market might be a little weaker at the end of the year. I think people are looking for things like PCs, and tablets to be little softer, but then you've got all these new wins, and I know as someone mentioned in the prior call that the audio codec has been short, so you might have some opportunities. I wonder if could just balance all those as you look outside your largest customer, and any perspective into the end of the fiscal year would be very helpful.

John Forsyth

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

A

Yeah, thank you, Blayne. Obviously, we – our guide to the current quarter, when we look out to the end of the fiscal year, I mean, it feels – this year, most and most, it feels like an awful long time between now, and March. So, there is a lot of uncertainty there. I would say the biggest thing weighing on – we've got great design momentum. I think we have stronger, and more diverse relationships across Android, and other parts of our business outside of smartphones than we've had in recent years.

The biggest factor weighing on those areas really is supply, so that's – we're still [ph] comparatively (00:21:14) constrained. I think we've commented elsewhere that where we work with customers on a long-time horizon, we're in a very strong position from a supply point of view, but a lot of the Android demand over the past year has been a lot more erratic. So, we're kind of very much focused on the upper end of the market there, making sure we can service those sockets, and we could probably grow the business faster if could grow the wafer supply, but that's a fairly universal challenge right now.

Blayne Curtis

Analyst, Barclays Capital, Inc.

Q

Thanks. And then maybe the follow-up, maybe the harder one to ask, but your largest customer was talking about constraints, how [ph] they've been (00:22:04) impacting their shipments of their product. Kind of just curious, is there a way you can talk about seasonality, and are you also – as you look to December, are any kind of constraints prohibiting what you can ship [ph] the next (00:22:18) quarter? And then does that translate in any kind of different seasonality for March?

John Forsyth

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

A

Right, I think that's a great question on the seasonality actually. Blayne. I would say when it comes to our own constraints, this kind of falls into that category I just referred to, that that's an area of our business where we tend to be very focused on the long term collaborative planning with the customer. So, we've generally been in a very good position to execute against some pretty phenomenal production ramps that we've been seeing, and we've obviously got a lot of volume through the end of the year – this year – so, it's not really any different from the way it has been in the past. Where we've encountered our challenges has typically been in the areas with shorter planning horizons, as I've said. Regarding how that maps onto seasonality, I would say that that's where for us even to the point of guidance has been challenging here.

We see very strong demand, but there is volatility in how the servicing of that demand gets scheduled, because we've been – our long term planning with our customer, our long term planning with the supply chain has really stood us in excellent stead, as is our investment in capacity agreements at the supply chain level. But if there are other suppliers to our customers, those customers depend on who are gating, or who are constrained. That can just mean that some of our material is subject to rescheduling as a consequence of that. In a quarter like the present one – so a couple of comments, but in a quarter like the present one, it does mean you have so much material during any one given week.

A small amount of rescheduling across the boundary could have a pretty major impact, but it also would appear, and this would be consistent with what you've heard on earnings calls last week that the fact that there are some constraints in the present quarter is certainly teeing up strong demand for the first quarter next year. So, we're obviously not guiding that, but the signals that we've been getting so far have been that our customers are very

keen to maximize the amount of material they can get during that first calendar quarter as well, so that may actually have something of an impact along the lines of what I think you're getting at there.

Blayne Curtis

Analyst, Barclays Capital, Inc.

Q

Thanks so much.

Operator: Next question from the line of Christopher Rolland of SIG. Your line is open.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Thanks guys for the question and congrats, Thurman. I really enjoyed working with you. So, I guess now that you guys have integrated Lion, can you talk about perhaps a quarterly contribution that you see, but also the growth rate that we might expect going forward, and conversely should we think about a growth rate for your organic power business, or power products as well?

John Forsyth

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

A

Yeah, thank you. We haven't broken out growth rate specifically for those areas. I think the way to think about Lion on a quarterly contribution basis would be to-date, it's been in line with what we expected, and we talked about something of the order of \$60 million contribution during the remainder of this fiscal year from deal close to fiscal year end. We still believe that we're tracking to that, and they were – and I think we talked about this last time out, themselves, they were on a relatively steep growth path. They had a lot of momentum within their customer base. So, I think certainly over the next year, or two, we're excited about what can happen with that part of our business even if we're not necessarily breaking out the individual growth rate. The growth rate in the rest of our power business right now would frankly look completely meteoric given that it was pretty much zero until a few months ago, and now we've got a one-to-one attach rate with one of the best products on the planet.

So, I think that's obviously going to stabilize a bit, but what I would say is that that represents a couple of things for us. One is just a really big tangible step in the direction of we've been talking about of diversifying really meaningfully the technology areas where we have proven expertise, and leadership and I think that can really help the business long term, as well as obviously the revenue contribution that we see today. But also that is really the first step in a whole series of things that we want to accomplish there, and there is a pretty well-stocked pipeline of ideas, and IP, and test vehicles which we're investing into kind of continue to grow that. So, much of [ph] it (00:27:35) – I'm not putting a number on it. You'll be able to see from our comments that we're very excited about where that can take us in the medium term.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Okay. And I guess kind of tying into this as well. Can you talk about opportunities that you have captured in phones today for some of these products, including your power product, but also things around cameras, and the possibility to broaden into new devices as well, whether they be tablets, or laptops, or perhaps some other devices?

John Forsyth

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

A

Yeah, absolutely. So, when you look at in particular those areas you talk about which constitute a lot of our high-performance mixed-signal business, so on the camera side, obviously that's focused on smartphones right now. We've seen a growth in the attach rate. I think that what we're doing there is highly applicable to other products that contain cameras. Obviously, what we're doing is kind of stabilization and focus related. We've talked about that elsewhere. So, it would typically be a camera that moves around rather than one that's fixed somewhere, so we would certainly like to find ways of expanding that, the reach of that technology into other products. In the power space, we launched during the quarter the power conversion and control IC that is in our recently launched flagship smartphone.

So, there's one of those paired device. Right now that's custom silicon obviously, and we are very focused as a team on serving our biggest customer first and foremost, and kind of continuing to execute on that is priority number one for the team, but it's also clear from everything we're seeing that we're making a lot of investment in this area and we really believe we can be innovative around the battery,. So that certainly represents a great opportunity to broaden and expand our business. And I think you can certainly think some of the other devices that you mentioned such as tablets, and laptops, and so on could certainly be places we would seek to land some of that technology as well.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Thanks again, and congrats, Thurman, again.

Thurman Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

A

Thank you.

Operator: Next question from the line of Ananda Baruah of Loop Capital. Your line is open.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Hey, thanks, guys. Good afternoon for taking the questions. Congrats on the strong results and, Thurman, congrats as well. Certainly, a few, if I could. One may end up being a clarification, but in the Shareholder Letter, when you guys spoke about accelerating in the laptop [ph] space (00:30:31), accelerating ahead of your strategic objectives, is that a general comment or is that what you are sort of seeing as we go through the fall here? Would love to get context there and then I have a quick follow-up as well.

John Forsyth

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

A

Thank you, Ananda. That comment relates specifically to the growth in our laptop business and what we're communicating there is that when we set out to engage customers in the laptop space outside of our largest customer where we already had business, we were principally focused on what we see as an emerging opportunity to sell boosted amplifiers into those devices. Those devices are getting thinner and thinner. They are moving from an HDA-based architecture to a satellite-based architecture, all of that means that they are going in some regards to look a lot more like smartphones architecturally than they have in the past.

And so, it's a very close adjacency for us. We've got a huge investment in boosted amplifiers to smartphones, really well established leadership there. And so, we formulated a plan to go after that market, that's really where those strategic objectives lie that we referred to there. It just happens that as we started engaging customers with

that, they responded very enthusiastically, but also were very keen to get us supplying codecs and, in fact, had some more accelerated interest in haptic trackpads than we were expecting.

So, there were more moving pieces in a positive sense there than we were initially anticipating and that's what we're communicating. So, it's been moving quickly for us to the point where as of today, we're designed into four out of the five largest notebook OEMs and we expect to see a fairly steady stream of new devices containing Cirrus Logic content in that category come to market over the next year.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

That's great. And is it something that you believe could become fairly meaningful over time? Is it incremental opportunity that you are seeing?

John Forsyth

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

A

I would put it as it's definitely going to be a really solid addition, I think [ph] or it has (00:32:54) the potential to be a really solid addition to our overall revenue and it's an area where we can really leverage the investment that we've made in audio technology for smart phones. In terms of magnitude, the investment that we're making and the opportunity we see around the power and charging and battery space is going to be more significant for us long-term.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Understood. And then just my follow-up quickly is just when we look out over the next handful of years, and this is not asking for a guidance, but just anecdotally so we can all calibrate our expectations directionally, can you remind us what our expectation for margin should be, gross margin, operating margin and should we expect some expansion in the coming years? And that's it for me. I appreciate it.

John Forsyth

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

A

So, [ph] our (00:33:52) gross margin target is – our model target is 50% gross margin. We believe that that level is really important in order to fund the kind of R&D and innovation that we bring to our customers. So, we continue to shoot for that or better as we bring new products to market. I think any potential expansion of that, we haven't communicated anything around that. I think that that will require more market diversity than we have today given the economics of the markets that we're in are pretty well, pretty well established and understood.

But I have been clear elsewhere that I think a lot of the investment that we've been making in the high-performance mixed-signal space both organically and through the acquisition of Lion and so on are really important stepping stones to being able to broaden our market reach into other product categories. And so that may open the door to it, but we've really not communicated anything about our longer term gross margin expectations.

Operator: Next question from the line of Rajvindra Gill of Needham. Your line is open.

Raji Gill

Analyst, Needham & Co. LLC

Q

Yes, thank you, and congrats on strong execution in light of very kind of [indiscernible] (00:35:21) environment and I echo my congratulations to Thurman, best of luck. Thurman, if I could just start with you, just on the gross margins, a follow-up to previous question. In the last earnings call, you mentioned that the gross margins are expected to kind of remain stable in the near term, but [ph] you were expecting (00:35:41) lower – slightly lower in fiscal year 2023 on pricing pressure. So, just wanted to get an update on your view on kind of that commentary in fiscal year 2023. Obviously, broadly, semiconductors are experiencing price increases across a lot of components, given the constraints that's existing. So just wanted to understand the pricing dynamic.

John Forsyth

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

A

Yeah. I'm going to step in on that there. I think [ph] I recognize (00:36:09) what you are saying about the overall market environment. We've seen cost increase during this year for us across a number of areas of the supply chain and we'll see further cost increases as we go into the new calendar year. Clearly, our goal is to offset those increased costs both through working hard on the supply chain side and through price updates to our customers.

Obviously, we've got some pretty unique products and our customers really depend on us for innovation and for world-class engineering execution and we require solid gross margins to support the kind of investment that's required to deliver that, and I think our customers understand that. So, today, our team is focused on working very closely both across our entire supply chain base and across all our customers in order to minimize the impacts of those cost increases to our gross margins.

So, that has to be balanced a little with the fact that we cultivate and build really deep long-term relationships with our customers. So, we've obviously go to ensure that we seek to offset our costs the way that's fair and that preserves the relationship with the customers and is consistent with us managing the business to the long-term, because that's what we do. But taking all those things together, we'll continue to work on pricing with our customers. The way pricing updates go, they don't necessarily sync perfectly with cost increases and that can lead to a bit of volatility around gross margin. And when you take all of that together, we felt it was appropriate to signal that we may – we're likely to [ph] hit (00:38:03) below the model target in FY 2023, but we're very focused on preserving the gross margins and the gross margin target that we've laid out in our model and we believe is a reasonable one and an important one for the health of the business.

Raji Gill

Analyst, Needham & Co. LLC

Q

Okay. Yeah, thank you for that information. And just a follow-up on the GlobalFoundries deal, thanks for the [indiscernible] (00:38:29) components, but wondering how the capacity additions that you are getting from GF with the prepayments that you made for the wafers, are you – that amount of supply, the capacity that you're getting, is that enabling you to feel comfortable about cutting your growth rate going into next year? I'm just trying to balance the near-term capacity that you're getting from GF relative to your ability to support your top customer, but as well as expand into some of these other growth areas like tablets and wearables, and with Lion as well. The prepayments that you have made, that you've gotten for the wafers, is that going to impact the capacity situation in calendar 2022?

John Forsyth

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

A

In calendar 2022, yes, it will. We expect during calendar 2022 that additional capacity will be coming onstream as a consequence of some of the investments that Global has been making on the back of the kind of partnerships that we've put in place with them. This year is, of course, that more of the case where that capacity hasn't really

expanded yet. So, we're able to serve our biggest customers by virtue of long-term planning. Could we sell more if we could good get more wafers? Absolutely. And could we sell more next year if Global could expand their capacity faster? Yes, absolutely.

But at the same time, we're through that deal putting ourselves in a position where we have a greater wafer supply, quite meaningfully larger number of wafers during next calendar year relative to this year, and that supports – that would be supportive of a healthy amount of business growth. Now, yeah, to your point, there may be areas of our business which could expand more rapidly if we're able to get more supply, but I think we're in a good spot relative to the actual capacity that exists in the industry until that starts to expand.

Operator: Thank you. Next question from the line of David Williams of the Benchmark Company. Your line is open.

David Williams

Analyst, The Benchmark Co. LLC

Q

Hey, thanks for letting me ask the question and congrats on the quarter and congratulations to Thurman there. So, quickly just want to ask maybe from a mix management perspective, you talked about constraints earlier, is there any part of the margin maybe that's benefiting from mix management as you think about selling your products on the [ph] limited wafers if (00:41:22) you have available to you?

John Forsyth

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

A

Well, the bulk of our products by value in terms of share of our overall revenue are going to be driven by the unit sales of our largest customers' products. So, we don't really have a role to play in terms of managing the mix of that. We're just focused on supporting our customer getting as many devices out there as is humanly possible. There're other parts of our business where we're – we have been able to adjust pricing and obtain capacity increases and drive fairly high margin returns on those devices, but that's comparatively small volume and small amounts of revenue for us. So, it doesn't really move the needle in the overall scheme of things for us. The most important thing for us really is getting as much capacity as we can focused on the products of our largest customers because that's where the bulk of our revenue is tied up.

David Williams

Analyst, The Benchmark Co. LLC

Q

Sure, thanks for that. And is there maybe a way to qualify your customer diversification as you kind of think about the Lion products coming in and maybe the diversification efforts that you have, how do you think about that diversity as you look out maybe a year or two versus where you are today in terms of your mix of customers?

John Forsyth

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

A

That's a great question. I think this is a part of the story where because our – we have so much successful business and a growing business with our largest customer base around their largest selling products that it can kind of overshadow the progress we've been making elsewhere to some extent. I alluded earlier in the call to the fact that we went from close to a [ph] standing (00:43:20) start to having multiple products in design with four out of the five top notebook OEMs, we're in three out of the top five tablet OEMs, [ph] now, we're in (00:43:32) two out of the top three truly wireless OEMs and all of those [indiscernible] (00:43:41) prior to the Lion acquisition.

Lion certainly brings us additional products that we can leverage to increase diversity both in revenue terms and engage new customers. So, I think there is a path there that we're on which is a very encouraging story and one that we will continue to grow as we reach beyond audio and drive more high-performance mixed-signal growth with – in the general market as well.

Operator: Thank you. Next question from the line of Vivek Arya of BofA Securities. Your line is open.

Vivek Arya

Analyst, BofA Securities, Inc.

Q

Thanks for taking my question and best wishes to Thurman from my side as well. I had two questions. First one, John, what are your sales from the non-smartphone, tablet market right now and where do you think they can head to over the next one to two years?

John Forsyth

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

A

Yeah, we don't break that out, Vivek. So, it's comparatively small relative to – are you asking specifically tablets? That's...

Vivek Arya

Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:44:53)

John Forsyth

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

A

That's healthy, but comparatively small part of our business relative to the smartphone contribution.

Vivek Arya

Analyst, BofA Securities, Inc.

Q

And for the second one, balance sheet is still strong, but when I look at the payment to the [ph] Foundry (00:45:08), your cash balance will be under \$300 million exiting the December quarter, if my model is right. Is that a comfortable range for you, since you typically like to operate at higher levels of cash? So, any puts and takes would be very helpful as we model the cash, and if there is any need for financing, et cetera, going forward?

Thurman Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

A

Sure, well, basically, we would say that \$200 million to run our operations and manage our operations over a period of time, is an area where as long as we're at that level or above, we're comfortable. We did see that the cash drop, that the last quarter reflected our deal with Lion and also then, included in this quarter's numbers will be with the GlobalFoundry (sic) [GlobalFoundries] (00:46:05) deal. So, you're not going to see us building it, but we have a really, really strong cash flow. We have no need for financing at this point in time. We may go – we have that need if we go down the road of M&A or some things like that, but for running our business right now, we're fine. We won't draw on our revolver or any financing. And you'll see as we move through the end of this year, the March quarter and the December quarter, [ph] our (00:46:33) much – our highest generation for cash, so you'll see us start moving back up towards the end of the fiscal year.

Vivek Arya

Analyst, BofA Securities, Inc.

Thanks very much.



Operator: Next question from the line of Derek Soderberg of Colliers Securities. Your line is now open.

Derek Soderberg

Analyst, Colliers Securities LLC

Hi, guys. My congrats as well on the results and to you as well, Thurman. Just one question for me on haptics, there's been sort of lot of talk lately about this metaverse and movement to a digital world. I'm curious, John, how we should be thinking about that opportunity for Cirrus as it relates to haptics or maybe elsewhere, potentially things like full haptic body suites and things like that? I'd be curious if you're investing in new products for these opportunities there, if there is anything you'd like to comment on for your haptics opportunity there and timeline for when those opportunities might hit, that'd be great. Thanks.



John Forsyth

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

Yeah, thank you, Derrick, that's a really interesting question. I think our expectations unit-wise are very modest there, but we are actively engaged with a lot of the folks who are blazing trails in this area. So, I think we've commented it elsewhere that we have a great track record of engagement and being designed into most of the AR and VR equipment that's been on the market to-date. We continue to talk to those customers about, both audio, haptic and certain other areas. Really as a, yeah, as a long-term bet, I think it could take a long time before we're all wearing haptic suits, but I'm also a big believer from a haptic perspective, for example, I think haptics have the potential to make the virtual objects real. So, it really does seem like it has a role to play in that, in that particular kind of user experience. So, we have some very cool technology around haptics. I think we have the right customer relationships. I think our expectations are that it's a long road there, but we feel that it's an interesting one to keep a certain amount of investment and engagement focused on.



Derek Soderberg

Analyst, Colliers Securities LLC

Awesome, thank you.



Operator: [Operator Instructions] Next question from the line of Matt Ramsay of Cowen. Your line is open.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Thank you very much, guys, for letting me jump back in for a follow-up. Hopefully, it's a quick one, but it's something that I do get asked about. So, on the last call, you guys sort of talked about this 50% [ph] up (00:49:33) gross margin target, and you just reiterated it might dip a little bit below that in fiscal 2023. But, there's three things kind of going on at the same time right, there's the broad-based foundry industry raising prices, there's the GF deal for wafers that you guys are doing, and then there's the integration of Lion. And, I just wanted to explicitly ask if the new gross margin targets that you guys have talked about over the last couple of quarters, incorporate all three of those. I guess it's just some worry in the investor base if there might be another shoe to drop. I don't think there is, but I just wanted to clarify. Thank you very much.



John Forsyth

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

A

Right, thank you, Matt. Yeah, the commentary that we provided last quarter is pretty much identical, I think, to what we reiterated this quarter and so, even though, as you point out, a couple of more cards got turned over during that period. So, at this point, what we're messaging around gross margin, [ph] there is – it (00:50:38) fully embraces everything we know and everything we think about the current environment and what we can see about the coming fiscal year. So, from our perspective, 2021 feels like a crazy year to say, hey, there's no other shoe to drop, but from our perspective, we're really embracing all the information we have there and that obviously includes everything you just alluded to. So, yes, I think that answers your question, but let me just check that I don't need to clarify.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Q

No, no, John, perfect.

John Forsyth

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

A

Okay.

Matthew D. Ramsay

Analyst, Cowen and Company, LLC

Q

That's very clear. Thank you.

John Forsyth

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

A

All right.

Operator: Thank you [Operator Instructions] Next question from the line of Christopher Rolland of SIG. Your line is open.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Thanks guys for the follow-up. My question is on OpEx, it looks like OpEx beat a good guide going forward, a nice kind of higher level here for OEMs to above your target at least for the next quarter. It seems like you guys have had a lot of new products that you've been ramping and supporting recently, plus the Lion integration. Are we done with OpEx spending? And this kind of better OpEx that we have here, do you think we can maintain this for a while, or is there a reason to believe there could be some catch-up in spending?

Thurman Klay Case

Chief Financial Officer & Vice President-Finance, Cirrus Logic, Inc.

A

Oh, I think that we've talked about and we'll continue to talk about, we'll continue to invest in R&D, and it'll be focused R&D on particular technologies or products or customers that we want to invest in and I think John has touched on that a bit in the meeting already. So, as you look for this quarter, that is the guidance for us and it's right around flattish to the last quarter.

But if you look at Q4, we would give you a heads-up that Q4, we're going to see payroll taxes and health funding and a lot of those things that happen only in the March quarter. So, you can expect an uptick there and you can expect that we'll continue to invest in R&D. What we can do is leverage our SG&A line, we think that we have the infrastructure in place that will allow us to leverage that as we grow revenue in the future and become a lesser percentage of our overall operating expense.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP



Yeah. Thank you, Thurman. I'll maybe just jump in with a quick additional comment there to add a bit of a longer-term color, Chris. I think our take on this or my take on this is, we want to be really strategic about OpEx. So, when you look at – [ph] you'll have seen (00:53:45) the head count number rise quite significantly in the last quarter relative to the previous quarter's messaging. Almost every single one of those [ph] adds (00:53:54) was related to power engineering. So – and from our perspective, that's where we see a really great raft of opportunities ahead of us. So, it's the right thing to do for the business to go attack those opportunities as best as we can, accelerate the Lion team, and grow in the other power areas that are in front of us.

By contrast, I think, as we continue to grow revenues, I believe we'll see increased leverage from OpEx, especially on the SG&A side, as Thurman said, and that should be favorable to operating margins as we go forward.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP



Thanks, guys.

Operator: Thank you. And I will now turn the call over to Chelsea Heffernan for additional remarks. Please continue.

Chelsea Heffernan

Director-Investor Relations, Cirrus Logic, Inc.

Thank you, operator. There are no further questions today. So, I'll turn the call back to John.

John Forsyth

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

Thank you, Chelsea. In summary, we delivered record revenue and earnings per share for the September quarter, ramped shipments in numerous new devices and passed major milestones in some of the key strategic initiatives that we expect to drive revenue growth and profitability as we go forward. With a rich portfolio of high-performance products today, and a roadmap that will continue to strengthen our position as a leading supplier of innovative mixed-signal solutions, we're really excited by the opportunities in front of us for the future. I'd also like to note that we will be participating in the Barclays Conference on December 8. Please check our investor website for the details on that. And if you have any questions that were not addressed today, you can submit them to us via the Ask the CEO section of our investor website. Finally, I'd like to thank everyone for participating in today's call. Goodbye.

Operator: Thank you and that concludes today's conference. Thank you, everyone for participating. You may now all disconnect.

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