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Cirrus Logic, Inc. (CRUS)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic Third Quarter Fiscal Year 2023 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 Ms. Chelsea Heffernan, Vice President of Investor Relations. Ms. Heffernan, you may begin.

Chelsea Heffernan

Vice President-Investor Relations, Cirrus Logic, Inc.

Thank you and good afternoon. Joining me on today's call is John Forsyth, Cirrus Logic's Chief Executive Officer; and Venk Nathamuni, Chief Financial Officer. Today, at approximately 4:00 PM Eastern Time, we announced our financial results for the third quarter fiscal year 2023. The Shareholder Letter discussing our financial results, the earnings press release, and the webcast of this Q&A session are all available at the company's Investor Relations website.

This call will feature questions from analysts covering our company. Additionally, the results and guidance we will discuss on this call will include non-GAAP financial measures that excludes certain items. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in our earnings release and are all available on the company's Investor Relations website.

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 the Shareholder Letter issued today, which are available on the Cirrus Logic website and the latest Form 10-K, as well as other corporate filings registered with the Securities and Exchange Commission for additional discussion of Risk Factors that could cause actual results to differ materially from current expectations.

Now, I'd like to turn the call over to John.

John Forsyth

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

Thank you, Chelsea; and thank you, everyone, for joining today's call. As you've seen in the press release, Cirrus Logic delivered record revenue this quarter with sales of \$590.6 million, driven by products shipping in smartphones. I'd like to express my sincere thanks to the entire Cirrus Logic team. As innovations, hard work and execution, and commitment to our customers made these results possible. And on behalf of all of us at Cirrus, I'd also like to communicate our gratitude to our customers and to all those who work with us throughout the supply chain, for their continued partnership and support.

In a moment, Venk is going to discuss the results in greater detail. But before we get on to that, I'd like to provide a progress update on the strategy driving our current momentum. As most of you know, the first pillar of that strategy is to maintain our leadership in smartphone audio. And during the past quarter, we saw a significant customer interest and traction across our portfolio of amplifiers and codecs in this market. We remain on track with the development of our next-generation 22-nanometer smart codec which we taped out during the quarter, and with the development of our next-generation custom boosted amplifier. We expect to see both components introduced within the next couple of years.

These new products will deliver significant performance improvements over previous generations, enabling our customers to build even more compelling and power-efficient devices for their users. One aspect of our flagship amplifier and codec business that's not always fully visible to those outside the company is that these products are designed in a very thoughtful and feature-rich way in close collaboration with our customers, in order that they're able to run for numerous phone cycles following their initial introduction.

In fact, over time, we've seen the lifespan of codecs and amplifiers increase. And this means that in contrast to many components in the consumer smartphone market, we can anticipate multiple years of sales at high volumes from our next-generation audio products, providing the company with sustained revenue contribution, excellent long-term visibility and the opportunity to redeploy our highly skilled engineering teams on to innovations that target other products and markets. So this is why maintaining our long-term leadership in these product areas is foundational to our future growth.

The second key element of our growth strategy is to expand the reach of our audio components and technologies, especially into adjacent markets that we believe we can serve profitably by leveraging the intellectual property and innovations that we have developed for our smartphone products. One of those markets is laptops. And in spite of the current cyclical weakness in the PC space, we see laptops largely as a greenfield opportunity, where we continue to expect our addressable market to grow significantly over the coming years.

As evidence of this, in the last year alone, Cirrus Logic has been designed into more than 60 laptop models using existing audio products. And building on that momentum, during the last quarter we saw considerable design

activity around our new amplifier and codec products that have been specifically optimized for the laptop market. We expect the first platform utilizing these new products to begin shipping in the second half of fiscal year 2024.

The third pillar of our strategy is to leverage our world-class mixed-signal engineering expertise to build a growing footprint of products and intellectual property in, what we call, our high-performance mixed-signal product lines. The significance of this facet of our strategy is that, doing so expands our addressable market significantly beyond audio. And we believe that our considerable experience in mixed-signal product development and advanced process nodes, and in delivering high-performance data converters, high-precision sensing and advanced signal processing is highly relevant to a number of product domains.

The fact that we have already seen meaningful contributions from products in this category, highlights that our customers also increasingly see us more broadly as a world-class mixed-signal solution provider. And today, we have more activity within our high-performance mixed-signal R&D teams than ever before.

During the quarter, within those HPMS activities, we saw continued strong customer engagement in the camera space. It's worth noting that as a consequence of increased attach rates, higher ASPs and a more favorable mix over time, we've grown the total value of our camera products in each of the last three smartphone generations. And we expect this trend to continue with our next-generation camera controller, shipping later this year. We also made excellent progress toward the introduction of a new HPMS component during the second half of this year, and we continue to see strong interest in our capabilities around battery and power.

Going forward, we believe there are further opportunities to grow our addressable market in the battery and power space, both within smartphones and beyond. And indeed, during the quarter we also taped out our first general market power product targeting laptops, which is designed to deliver more efficient power conversion in order to enable OEMs to create more powerful single fan and fanless laptop devices.

In summary, in the third quarter of fiscal 2023, we continue to execute on our strategic initiatives to diversify our product portfolio and broaden our addressable market into new application areas and end markets. With a solid pipeline of products expected to be introduced over the coming years and a deep commitment to investing in innovative technology, we believe Cirrus Logic is well positioned to drive growth and capture new opportunities in the coming years.

And with that, let me now turn the call over to Venk, to provide an overview of our financial results for the fiscal Q3 2023 as well as guidance for fiscal Q4.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

Thank you, John; and good afternoon, everyone. I'll provide an overview of our financials. Starting with fiscal third quarter revenue was \$590.6 million, which was an all-time record and represents the sixth consecutive quarter of record revenue for the corresponding fiscal period. Revenue was up 9% quarter-over-quarter and up 8% from a year ago. Our strong performance during the quarter resulted in revenue above the high end of our guidance range and was driven by demand for smartphones.

On a year-over-year basis, the revenue performance was driven by higher ASPs, which predominantly helped offset increased costs and, to a lesser extent, additional high-performance mixed-signal content in smartphones. I'd like to highlight the continued outstanding execution by the supply chain organization and the entire Cirrus team, in helping deliver these strong results, especially in light of heightened disruptions in the global supply chain during the December quarter.

Turning to gross margin. Non-GAAP gross profit in the quarter was \$297 million, and non-GAAP gross margin was 50.3%. This was roughly in line with the mid-point of the guidance range we have provided. On a year-over-year basis, gross margin decreased due to an increase in supply chain costs and, to a lesser extent, a less favorable product mix.

Non-GAAP operating expenses in the quarter were \$123.2 million, roughly flat sequentially. I'd note that operating expenses came in below the mid-point of our guidance range despite higher revenue, as higher product development costs and employee-related expenses were offset by lower variable compensation.

We intend to continue to invest strategically in new product development, as we see ongoing opportunities to increase our content; while at the same time, controlling discretionary spending. Non-GAAP operating income was \$173.9 million in the third quarter or 29.4% of revenue. And finally, on the P&L, non-GAAP net income in the third quarter was \$135.8 million or \$2.40 per share.

Let me now turn to the balance sheet. Our balance sheet continues to remain strong, and we ended the third quarter of fiscal year 2023 with approximately \$508 million in cash and cash equivalents. Our ending cash balance was up nearly \$80 million from the prior quarter, primarily due to strong cash flow from operations, partially offset by stock repurchases during the quarter.

Specifically, we generated cash flow from operations of roughly \$181 million during the December quarter, which is about 31% of revenue; thanks to the excellent execution and collections performance by the team. We continue to have no debt outstanding. And also, I'd note, we have \$300 million undrawn on our revolver.

Inventory was \$152.4 million, down from \$164.6 million sequentially, and days of inventory was 47 days in Q3, down 8 days sequentially as we shipped product to support our customers' new product ramps. Looking ahead to Q4 fiscal 2023, we expect inventory to increase from the prior quarter, as we fulfill ongoing demand and manage inventory ahead of product ramps later in the calendar year.

Now, turning to cash flow. As I mentioned earlier, cash flow from operations was \$181 million in the December quarter, and CapEx was roughly \$8 million, resulting in free cash flow for the quarter of \$173.3 million. Free cash flow margin for the December quarter was 29%, and for the 12-month period ending in the December quarter, free cash flow margin was 26%. On the share buyback front, in Q3, we utilized \$50 million to repurchase approximately 713,000 shares of our common stock at an average price of \$70.14. As of the end of Q3 fiscal year 2023, we had \$536.1 million remaining in our share repurchase authorization. We expect to continue to return capital in the form of stock repurchases, which we believe will provide a long-term benefit to shareholders going forward.

And now on to the guidance. For the fiscal fourth quarter of 2023, we expect revenue in the range of \$340 million to \$400 million. We expect gross margin to range from 49% to 51%. Non-GAAP operating expense is expected to be flat sequentially in the range of \$120 million to \$126 million, as higher product development cost is offset by lower SG&A expense. We will continue to control discretionary spending, but invest strategically in product development to drive long-term growth.

On the tax front, as we have previously discussed, due largely to a tax tool effective from the start of our fiscal year 2023 that requires companies to capitalize and amortize R&D expenses rather than deduct them in the current year, we continue to expect our fiscal 2023 non-GAAP effective tax rate to be approximately 23% to 25%.

We maintain our expectation that, under this rule, our effective tax rate will decrease and may return to a normalized range in about five years, as additional years of R&D expenses are amortized for tax purposes, absent any changes to the legislation. I'd note that without the impact of this rule, our non-GAAP effective tax rate would be in our more typical mid-teens range. In closing, we had a strong Q3 fiscal year 2023 as we executed well to deliver these results.

Going forward, we will continue to focus on the best opportunities to enable the company to grow both revenue and profitability over the long-term. And before we begin the Q&A session, I'd like to note that while we understand there is intense interest related to our largest customer, in accordance with Cirrus Logic company policy, we will not discuss specifics about our business relationship.

With that, let me now turn the call to Chelsea to start the Q&A session.

Chelsea Heffernan

Vice President-Investor Relations, Cirrus Logic, Inc.

Thanks, Venk. We will now start the Q&A portion of the earnings call. Please limit yourself to a single question and one follow-up. Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question today comes from the line of Matt Ramsay with Cowen and Company. Your line is now open.

Matthew D. Ramsay

Analyst, Cowen and Company

Q

Thank you very much. Good afternoon, guys. I guess, for my first question, Venk, maybe this is for you. I wanted to talk a little bit about seasonality. Obviously, the results in the December quarter, really strong; and I think the guidance is sort of in line on a revenue basis for March, but that's down, I don't know, 25% give or take on a sequential basis, which is maybe a bit more than typical seasonality or maybe you could just clarify what typical seasonality might be at this point in the cycle.

But how do we kind of think about seasonality into June? There's been years where June was down sharply. There's been years where June was up sharply. I'm just thinking how – trying to figure out how to characterize that, because we're in a bit of an interesting period from an inventory perspective all the way around in the smartphone space. Thank you.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. Thanks for the question, Matt. And let me start and then if John wants to add to it. So as you pointed out, Matt, typical seasonality is no longer the case and especially given what's happened in the last couple of years with the pandemic. But having said that, as you pointed out, we had a pretty strong Q3 fiscal 2023, and that was driven by the smartphone volumes. But I would say that, looking ahead, clearly we have taken into account what the demand signals that we have as we provide guidance for the March quarter.

One thing to note is that, in the prior year March quarter, we did have the benefit of the [ph] SC (00:17:08) launch, which we do not expect in this upcoming quarter. And we take that into consideration along with all the other general market signals. We have factored that into our guidance. Now, as it relates to the June quarter, we're only giving guidance one quarter at a time, and we'll deal with that at the next quarter's earnings call.

Matthew D. Ramsay

Analyst, Cowen and Company

Q

Thanks for that, Venk. Fair enough. John, I was encouraged in your script that you talked about the tape out of the 22-nanometer codec and the significant progress on the next generation of boosted amplifiers which I think lines up pretty well for some consistent content expansion and new content for the company overall. And then, on the flip side, you talked about the length of time in which your design wins stay relevant with your customer and talks about multiple years of revenue when you win something.

And I'm just trying to put those two things together in terms of how – the current generation of those products has been shipping for a while, and you're going to have new generations coming, so how are you thinking about the potential for ASP resets or content expansion in dollar terms as those products launch generally, understanding you can't be super specific given the customer.

John Forsyth

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

A

Yeah. Thanks, Matt. I'm not going to get into detail on the ASP front, but these are really big developments. If you look at that codec development for example, not only [ph] they have a (00:18:48) really heavy lift to get all that IP on to 22-nanometer, we undertook a serious investment in the test chip in that process, what will be the best part of five years ago by the time that product comes to market.

So, it's a very significant investment. And frankly, that chip is going to be phenomenal I think in terms of power, consumption, efficiency; what it does for our customers in terms of enabling system design, flexibility and performance. It's a big leap forward, and it can be the platform for a long time. So in line with that, yes, we'd expect some ASP uptick as we get to the launch of that.

And similarly, with the boosted amplifiers, our goal when we're approaching a product like that is not only to look at how we can improve the product intrinsically, but also how we can save some cost and board space for our customers by integrating stuff that's around us on the board. And with our new boosted amplifier, we're doing exactly that. We're reducing the component count that sits around the amplifier, and that gives our customers a real benefit. And again, when you're able to deliver a benefit like that, that results in a cost saving for the customer and should result in an ASP increase for us as well.

Operator: Your next question comes from the line of Tore Svanberg with Stifel. Your line is now open.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yes, thank you; and congratulations on the record results. Maybe to follow-on on that same topic, the 22-nanometer smart codec and the boosted amp. You did say, you expect [indiscernible] (00:20:42) within the next couple of years. I mean, could you maybe be a little bit more granular? I mean, is this something that we should expect within the next two years, next three years or is this sort of like within the next five years?

John Forsyth

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

A

Oh, yeah. And thank you for the nice comment, Tore. By a couple, we mean two. So, we're old school on the definition of couple. We talked about the 22-nanometer codec being in design in the fall of last year. And typically, when we talk about – setting aside all the work that comes before that and the test chip and so on, when we talk about the actual product being in the design phase, that's typically – sorry, a couple, meaning two years out from the actual introduction in the market.

Tore Egil Svanberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Excellent. And then on the topic of the laptop market, you talked about 60 new models that you got designed into last year, I believe that was probably from your – I wouldn't call them legacy products, but you did talk about some new laptop-specific products, right. So those design wins are still on the come. And if that's the case, would those also tend to carry higher ASPs?

John Forsyth

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

A

Yeah, that's a great question and you're exactly right. To clarify that, those 60-plus design wins that I referred to are based on products which we had developed prior to targeting the laptop market as an expansion of our audio addressable market. So, we've really been doing very well with the existing product portfolio. However, you can certainly improve on that and optimize, for example, the battery architectures that we see in a variety of laptops.

I've talked about the sound wire interface being a feature that's coming over the horizon there. So, we have these new generation products which are looking at addressing those needs. And I think we'll see our older products continue to run in parallel. They certainly still perform extremely well and are highly relevant. But yeah, we would anticipate some ASP increase as we see the introduction of those new boosted amplifiers in particular.

Operator: Your next question comes from the line of Blayne Curtis with Barclays. Your line is now open.

Blayne Curtis

Analyst, Barclays Capital, Inc.

Q

Hey, good afternoon. Thanks for taking my questions. I had two. Just going back to Matt's question, I think, just analyzing December, if you could just talk about the upside. I think the shutdowns were kind of happening as you kind of guided, so you probably added some conservatism.

So is that, with the beat what we're seeing, I mean obviously you have content gains and you may not track that customer, but they're down year-over-year. I think they missed a bit on the quarter and guide. So I guess, that's – the question we're going to get a lot is, how do you view when your customer is down, but it might be the wrong measure because you might add some conservatism. So just, can you explain this time a little bit more, that'd be helpful.

John Forsyth

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

A

Yeah, sure, Blayne. I think we guide with all the information we have at the time, so it's our best estimate of where we're going to land. I think when you think about December, especially kind of how that matches up with our largest customer, and you'll forgive me I hope if I haven't fully passed all of [ph] Tim and Lucas (00:24:12)

comments yet, but I think the big picture is, number one, you can't always – it's not always easy to true up our shipments with customer shipments.

From our perspective, demand signals from our customers throughout the quarter were strong and sustained, and that included request for expedites, drop shipping, a lot of material and so on; the kind of things that carry additional costs. And so, they really tend to be things that customers are asking for if they really need it. And so, that's what we saw from the demand side. I think the other things that are worth keeping in mind in terms of just analyzing our results.

And number one, we were on the second cycle following significant content expansion with the power conversion control chip that came in in the previous generation, but we obviously get a tailwind effect from that. And secondly then, because our content tilts higher towards the higher-end devices, to the extent that there was any mix bias towards the premium models, that would have benefited us; and the demand signals that we saw and what we were shipping were consistent with that.

Blayne Curtis

Analyst, Barclays Capital, Inc.

Q

Thanks. And then, John, my second question. I just wanted to ask, in your Shareholder Letter you talked about shipping the Gen 2 camera controller. You did a good job explaining the new codecs and amps, so I was wondering if you could do kind of the same there as we're trying to handicap maybe the content boost from that. Could you explain the different geometry like different functionality? Any color there to help us kind of get a grasp on what the content uplift would be good?

John Forsyth

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

A

Yeah, it's a significant feature enhancement. I think the biggest challenge around – for you and for us, I think, around the camera controller content is when you take into account the differing attach rates across SKUs within a generation, the differing attach rates across generations, and then the different products from us ourselves with different ASPs, that gets very difficult to analyze. So, we've tended to talk in terms of blended ASP just the total value of the camera content.

Obviously, beginning at baseline back in – back three generations ago where we indicated it was in line with an amplifier, and then we saw a step up that was of the order of \$0.20-ish from there and then saw something similar beyond that. And then, as we go into the next cycle, we'll see another incremental step up. But the benefits that we get from higher value content of which this is, is really elongated over a number of years because it will cascade down through the models most likely, and then wash through subsequent generations as well.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

And if I could just add to what John said, just as we talked about the amplifiers and other products where we have good visibility, we are in a similar position with the camera controllers just having gone through multiple generations. And there's also a lot of partnership with the customer to develop those products. So there's a lot of excitement and visibility about this going forward.

Operator: Your next question comes from the line of Christopher Rolland with Susquehanna. Your line is now open.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Thanks for the question and congrats on December. So, actually as I look at December, your revenue at your largest customer was fantastic. If you [ph] ex (00:28:02) that out and look at revenues from others, it was perhaps a little lower than I had expected and maybe the lowest we've seen in a while. I guess, could you kind of address that? Is it just because you were catering to the needs and demands from your largest customer that you couldn't necessarily fulfill the other customers? Or does that really reflect true demand in the December quarter from other customers? Thanks.

John Forsyth

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

A

Yeah. Thanks, Chris. I'll give a comment and invite Venk to add any additional color if he'd like. I think previous comments that I've given on how we approach the supply constrained environment probably set the stage for what you've observed there which is that, when we are supply constrained, what we absolutely don't want to do is leave a customer in the lurch. So, it tends to be on the granular – the nature of our business is that it tends to be on the granularity of a socket. Either we bid for a socket or we don't, and if we aren't confident we can supply it, we're not going to bid for it.

So, winding back multiple quarters before fiscal Q3. When we were bidding for these sockets, we were deep in the supply constrained environment, and that really limited what we targeted, especially within the Android space. And so, yeah, that's resulted in our revenue. I mean, I think great revenue story overall, but it's tilted a little towards our largest customer there for obvious reasons. And we benefit in terms of total content value quite significantly with each of those devices that are sold.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. And just to add to what John said, I mean if you'll think about the business that we sell outside of the largest customer, it's a combination of what we sell into some of the other smartphone vendors and Android, but also there's a general market product portfolio that we sell into the typical analog type of functionality. And as you can imagine, and we alluded to this on the previous call, the general market did see some softness, and that's part of also why we saw the mix between the top customer and the rest of the business. And we expect that to kind of continue, and that's part of our guidance for the March quarter.

Christopher Rolland

Analyst, Susquehanna Financial Group LLLP

Q

Okay. That's very helpful. I guess, just a quick follow-up on that one. Should we expect a catch up to other customers in March? But secondly, regarding supply that you had mentioned, can you talk about how comfortable you are now, particularly as we're seeing some supply slack from others around foundry? Are you much more comfortable there? Are you going to enter into larger WSAs, kind of given this dynamic or just kind of play it by year? Just anything around your supply situation and strategy would be great.

John Forsyth

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

A

Sure. On the former bit, I would stop short of talking about any catch up with other customers. We're excited about the sockets we're in for sure. But given the macro uncertainty, it's hard to – and some of this softness that we've seen in the general market that Venk alluded to, it's hard to be sure how that's likely to play out. On the

supply side, we have for sure seen some easing up in certain areas, which has been beneficial to us and has certainly helped us plan to meet some of the commitments and content growth that we see ahead of us.

But in some key areas of our business, especially around our high-voltage products, we are still supply constrained and that's in terms of absolute wafers and capacity for certain technologies that new forthcoming HPMS products from us depend upon. So to that extent, we still see as we look forward through the coming quarters that we have a lot of work to do on the supply side to meet the potential demand.

Operator: Your next question comes from the line of Raji Gill with Needham & Company. Your line is now open.

Raji Gill

Analyst, Needham & Co. LLC

Q

Yeah. Thank you and congrats on really good results. Just a question outside of the smartphone market, particularly around the laptop traction that you're seeing. I think in the past you talked about the content for laptops estimated to start around \$1.50 between the audio amps and the haptic drivers and the codecs.

I'm wondering how you're kind of seeing both the unit penetration and kind of ASP kind of mix within that market. And you also talked about the opportunity to utilize your fast-charging IP on both sides of the battery. And so, I think this is an important part of the story, the diversification story outside of mobile. So, [indiscernible] (00:33:33) any thoughts on that market as you progress there?

John Forsyth

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

A

Yeah. Thanks, Raji; and thanks for the nice comment. I think the way to think about the overall opportunity in the PC market or the laptop market for us which is where we're really focused within PCs, is of the SAM growth in the coming years, which we anticipate getting to over \$1 billion by 2026.

And that's going to be fueled by both in expansion of the audio SAM and the HPMS SAM. The HPMS SAM includes both haptics and then the power devices that you referred to. So, there are some different categories of power devices, some in charging, some elsewhere in power conversion within the laptops. But we do see good opportunity there. And I mentioned in the – or we mentioned in the letter that we have tapped out during the quarter our first laptop focused power part.

And so, it's very early days for that. I think, it's going to be something where we start seeing the impact of that in calendar 2024. But we're very excited about that. And on the audio side, that makes up the bulk of the SAM growth. So about two-thirds of that \$1 billion plus SAM is audio and about one-third HPMS. But the audio side really represents a more immediate opportunity to us, given, A, where we are with products where we've got existing products and new generation products; and the fact that there is real immediate demand for significant improvement in laptop audio.

And when you've heard laptops that incorporate our technologies, they absolutely blow the competition away. And I know that anybody that used a laptop for audio in the past five years will say that's fairly low bar to clear. But it really is a game changer what we can deliver in audio in that category. So, we see that as being the bulk of the opportunity in the immediate term.

Raji Gill

Analyst, Needham & Co. LLC

Q

Yeah, appreciate that. And for my follow-up, Venk, in terms of seasonality, I know that's difficult to kind of articulate, given the volatility in the industry in the last couple years. But when you're looking at your March guide of down roughly 37% sequentially at the midpoint, how do we think about that seasonality kind of relative to historical patterns?

Typically, March is down roughly around 30% and then June is also a little bit soft, and then you have a big ramp in September, December. Given that more supply is coming, we have a product cycle, how would you characterize the shape of the seasonality this year as it stands today?

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah, thanks for the question, Raji; and thanks for your nice comments earlier. So as you pointed out, with the performance that we had in the December quarter, obviously, we came in about the high end of the guidance range just driven by the smartphone content gains as well as the overall unit volumes.

Now, for the March quarter, as I mentioned in response to a previous question, we took into account – even though it's not typical seasonality as we pointed out, especially in the last couple of years, we did take into account that the unit volumes will be down sequentially. And another thing that played into our guidance for the March quarter, actually two things I would say. One is, the fact that we won't have the benefit of the [ph] SC (00:37:29) product launch from last year. And so, that accounts for a little more the guidance decline from the prior year.

And then the second aspect of it is, also the general market product line that we talked about earlier which is essentially highly correlated with the macro. And we certainly wanted to take that into consideration as we provided guidance. So, it's a combination of those things. And then, looking beyond the March quarter, I think it's too early for us to tell, it's anybody's guess what the macro is going to do. But we will provide you that guidance when we get to that next quarter's earnings call.

Chelsea Heffernan

Vice President-Investor Relations, Cirrus Logic, Inc.

A

Operator, this will be our last question.

Operator: Your final question today comes from the line of Ananda Baruah from Loop Capital. Your line is now open.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Hey, guys. Appreciate you taking the question. Thanks so much. Yeah, just two quick ones if I could. Could you talk to what you see as the inventory environment to the extent you have visibility across the business? And then, I have a quick follow-up. Thanks.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. So, I think John mentioned this earlier, Ananda, which is, essentially the signals that we got from our customer as we shipped into the December quarter, would suggest that there was significant demand for the products, and the overall performance for the December quarter shows that we were benefiting from the smartphone unit volumes.

Now, looking ahead into the March quarter, we have taken into account the combination of what is typically a sequential decline in units. And in addition to that, the macro thing which is related primarily to the non – in the smartphone business which I talked about earlier. So, it's a combination of those two things.

Now, everything that we have seen so far suggests that we are shipping to demand. Having said that, we don't have perfect visibility into the customers' inventory, but the signals from our customers seem to suggest that we are shipping to the demand signals that we get.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Okay. Thanks for clearing that up. That's really good context. Thanks, Venk. And then Venk, this one's actually for you as well, as a follow-up. Just the factors that will influence gross margin as we move forward here, the pushes and pulls? And that's it for me. Thanks.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. So the gross margin, as we reported in this quarter, we came in pretty close to the midpoint of our guidance range; probably 30 basis points higher. The way to think about our gross margin long term is, we want to obviously optimize between revenue growth and profitability. Over the long haul, we certainly want to stick with the 49% to 51%.

Over time, we will – as the mix of the product changes between how much we ship into smartphones versus what we ship into the general market, we'll have some inter quarter variations in gross margin. But the way to think about our long-term model is to be in the 49% to 51% range, such that we can continue to grow the top line at a very robust pace and maintain profitability at the current levels. The operating margin is what we hope to expand over time as we improve R&D efficiencies and control discretionary spending and so forth, but the gross margin is where we want to be.

Operator: I would now like to turn the call back over to Chelsea Heffernan.

Chelsea Heffernan

Vice President-Investor Relations, Cirrus Logic, Inc.

Thank you, operator. With that, we will end the Q&A session, and I'll turn the call to John for final remarks.

John Forsyth

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

Thank you, Chelsea. In summary, in the December quarter Cirrus Logic delivered record revenue with strong execution across our three areas of strategic focus. Number one, continuing our leadership in smartphone audio. Number two, broadening sales of audio components and key profitable applications beyond smartphones. And thirdly, applying our mix signal expertise to expand into new adjacent high-performance mixed-signal markets. We're more excited than ever about the opportunities that we see in front of us; and we'd like to thank you all for your continued interest in Cirrus Logic.

Before we close, I'd also like to note that we will be participating in the Susquehanna Conference on March 2 in New York. Please check our investor website for the details. And if you have any questions that were not

addressed on this call, 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: This concludes today's call. Thank you for attending. You may now disconnect.

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