

**Cirrus Logic --BREAKOUT**

**May 23, 2013  
10:30 AM ET**

- Jason Rhode: So we'll start the Q&A. So I was just giving the folks on the other end, if there are any, a heads-up.
- Blayne Curtis: What was the catalyst to effectively take down gross margin guidance? What changed?
- Jason Rhode: I really can't get into the details of it, but all I can say is we had the news out as fast as we could. We're obviously doing another conference in a little bit, our usual bit. We didn't want to cancel the conference, and that's as quick as we could get it. So it's a competitive space, there's a lot of pricing pressure and a lot of growth, so we felt like we needed to get back in line a little bit, more with the other people that supply the space, which this has effectively done.
- Blayne Curtis: Right. And can you provide any more color in terms of you had to protect your (inaudible)?
- Jason Rhode: I really can't get into any more detail about it.
- Unidentified Audience Member: Can you answered this, maybe? You talked about, from (inaudible). That's later, right? That's not this year.
- Jason Rhode: Right, yes. We're designing actively on 55, on a number of different products, but no, we're not shipping 55 yet. We are making great progress on that front. It's, I think, going to be an amazing node, an amazing node for us. It really enables us to do a tremendous amount more differentiation on the digital signal processing side in conjunction with our analog.
- Unidentified Audience Member: Do you really think your audio band versus banding speed, shipping into the ACC-1 had some of the same defects, you know, louder speakers. Is that a feature set that other (inaudible) embrace? What's their first differentiation?
- Jason Rhode: Yes, it is. As I mentioned in the main session, amps are more competitive than most of the areas that we participate in. There's a number of guys that have decent products out there in that arena. So where we look to be successful in the long term are areas where we can differentiate our amps with more and more signal processing. And, frankly, with the product that we have out, there's form factors where we've been able to add more value than others. And so that's just a dynamic that we need to learn from and adapt our products as we go forward. So we think there's a good business in it for us in the long term. But we're certainly not going to win every socket in that space.

Unidentified Audience Member: In terms of the new products that are coming out in Q3, do you expect to get a full quarter of that, or is it going to be more towards the second half of the quarter?

Jason Rhode: Actually, I didn't specify that we had new products coming out in the third quarter.

Unidentified Audience Member: Oh, I just heard your largest customer was ramping a new iPhone.

Jason Rhode: And I'm for sure not going to comment on that. Was there a remainder to that question?

Unidentified Audience Member: That was it.

Jason Rhode: Okay. Just wanted to make sure I didn't answer your whole question.

Unidentified Audience Member: I'm just trying to--Greg, you've asked the same question, probably--but so I apologize. But as far as, any of us can do the math and figure out that your gross margin, you're going to maybe high 40s, mid-40s, you kind of know what the impact is to (inaudible), but really, the impact on the revenue seems like it's more dramatic than that. So you must be into your dives, all right, simple math, right? There's (inaudible) rate, there's AP, there's (inaudible) and kind of early (inaudible).

Jason Rhode: Well, from a what we're going to ship, we've got a pretty good amount of visibility a ways out in terms of what sort of products we're going to be shipping over the next handful of quarters. The pricing pressure is a new dynamic. And certainly, those two things layer on top of each other.

But with respect to the increased pricing pressure, we got that out as this is kind of breaking news here today.

Unidentified Audience Member: And then coming after the question, but how do you grow to scale? Do you have some headway, same way to ship in (inaudible) this year for your new products, whole in shipping and step up in the new ones, you're not saying anything that people don't know, right? The math, that it works out that you should get a tail on that, more content per box story. And if you go to next year, then obviously you have kind of a rear strong viewer and higher content in (inaudible) and lower content and should get headwinds. How do you grow, I guess, longer term?

Jason Rhode: I mean, again, without commenting on any specific products, again, we don't expect to grow 15% this year. And over time, we hope to be able to introduce new products, new form factors, new end products, and new devices from us that expand our markets. I don't think anything has fundamentally changed in that regard from how we've operated in the past. Again, whether we can do that remains to be seen. Our track record of doing it over the past handful of years has been really good.

Unidentified Audience Member: Can you talk about your major areas of product development in general that would allow you to broaden into what new areas for you to get the growth?

Jason Rhode: Yes, I would love to. So obviously, the biggest investment for us continues to be audio. A lot of what we're doing with respect to a voice experience type product, like I was talking about, where you can do smart things with separating out different people speaking from one another or someone speaking in a large amount of background noise and doing intelligent things with that. These are applications that are interesting and portable and, frankly, we think maybe actually take off first in portable, just because portable devices tend to be self-contained kind of ecosystems.

But those features are really applicable in a lot of other applications--automotive and other things in the home that we think set up a really nice market dynamic for us, because an area where we can make a major investment and have it pay off in kind of multiple different waves in from portable to automotive to home.

So the biggest would be kind of voice differentiated technology. That's probably one of our larger investments today. And then certainly in the energy space, LED lighting is a big investment that we expect to pay off over the coming years. And as we've developed the expertise that we have in LED lighting, we've looked for other ways, other markets, to deploy that in. It can be motor control or power supplies or things like that. But the confluence of a lot of digital signal processing with high-voltage, high-power capability is not actually something that a lot of companies have the capability of doing.

Unidentified Audience Member: And the voice differentiation you talk about--how are you timing the account product?

Jason Rhode: Well, I mean, we're shipping things today that offer a significant amount of differentiation in the voice experience, but we're just working on broadening that out. And like I say, anything we do takes a significant amount of time. It took us a year to design a new chip, takes a customer, once they're on the hook, a year to design their product around what we do. We don't mix in compatible products with anybody. We don't participate in second-source arrangements. So it takes a long time to build a business in that regard. But our goal is to build a really good company over the long term, not have a flash in the pan for a quarter or two.

Unidentified Audience Member: So that's mostly software features as opposed to you having to design new hardware for the future.

Jason Rhode: We are very solidly and clearly an IC supplier. So when we do software and firmware, it's to differentiate the hardware we're selling. We typically don't do IP models.

Unidentified Audience Member: The quality of the product, obviously, given the question, given like the customer (inaudible) requiring that you can do that. You've done that over multiple products. Obviously, the product is good. Is there a roadblock in front of that, though, that depends on being able to penetrate under Canton OEMs and drive the type of volumes and you've kind of diversified with it?

Jason Rhode: Well, it has always been a line in audio, and I think in any business, that you need to know where you're adding value. For us, the dividing line has always been if audio becomes a checkbox, or if audio for a particular manufacturer--and frankly, for most mobile phone manufacturers, audio is a checkbox. Once audio is a checkbox, it's rarely going to be the case that we can add enough value for it to be an interesting business.

But that's been true in every market we've ever participated in. We like to think of ourselves, at least, as a premium North American IC supplier, and that requires us to target markets that are really going to differentiate around what we do.

So yes, there are plenty of mobile phone manufacturers who, we call on them, they keep, make sure nothing has changed or make sure there's not a good opportunity. We think they're incorrect. We think that mobile phones are a great opportunity to differentiate on audio performance. But for the most part, most manufacturers haven't chosen to go that route.

But just to segue a little bit, that is why we have invested more in voice experience. You know, everybody that has a cell phone would like the speakerphone to be a little better, to

be able to lay the phone on the seat of the car next to you and actually be able to use it. You know, it's neat when you can hear the person on the other end.

And so that does broaden our appeal, and that is what's led to the success we expect to have that I've mentioned, where we do expect to be shipping to a different mobile phone manufacturer with a new catalog product coming up this summer. So, and that's more in this voice experience kind of an area.

Unidentified Audience Member: For (inaudible) background noise suppression?

Jason Rhode: Basically, we've got a general market part that facilitates a function called beam forming. So if you don't know, beam forming is kind of like the electronics equivalent of like you see at the NFL, those old parabolic microphones that they aim at people. Beam forming's kind of like doing that all in DSP with an array of multiple microphones. And it provides a neat way to differentiate the voice experience with certain functions on phones and lots of other things. Beam forming, and the support of beam forming, are areas where we really think, over the long term, there's a lot of products that will have that technology in it that don't today.

And just frankly, there's a lot of applications where there are no microphones, where there will be over time. And every time there's a microphone, there's a good opportunity for audio signal processing to be somewhere behind it. So we think, over the coming decade, the volume of applications for what we do grows a great deal.

Unidentified Audience Member: (inaudible)

Jason Rhode: Well, I mean, not directly, but we're always careful. I mean, we've always been careful to try to build a business that is sustainable within that model that we're targeting. So we pick our hiring wisely. But as I said, we're substantially, our profitability was substantially in excess of what our target was previously--so certainly not like we were looking to lower it--but this kind of brings us more in line with the model. We think we've still got hiring to do within the product lines, but we'll certainly be conscious of overall profitability as we're going through that.

Unidentified Audience Member: (inaudible)

Jason Rhode: The same--the model we've had since 2007, and this is really a goal that we think is kind of a metric for what a good company looks like, is 15% revenue growth and 20% operating. And obviously the revenue growth varies quite a lot, year by year.

Unidentified Audience Member: 20% operating growth?

Jason Rhode: 20% operating profit, sorry.

Unidentified Audience Member: Can you talk about competition? I'm wondering where you saw, sort of (inaudible) goals or how you compete with them, especially in terms of how, I think, that beam forming? I mean, that's a pretty much a software function, at least in my view.

Jason Rhode: Yeah, that's right. Today, that's why I said that we support beam forming. So we're basically, in this particular application, we've got an A-to-B converter array that's very tiny and low power, so it supports being able to take those signals in.

The challenge, I think, with being more of an algorithm supplier is there's too many places to run the algorithm. You know, you've got powerful apps processors that can do amazing, different things, and frankly, the companies who are programming them are

usually pretty good at software. So if your key differentiator is algorithm, you know, that's a tough business model to make. That's why I say we're an IC supplier; we sell chips. When we do algorithms, it's to make our chips a little cooler.

Unidentified Audience Member: Can you sort of frame the audience for me? I view them as your competition; is that not correct?

Jason Rhode: Yeah, I mean, who knows what happens over time, but historically, they've really not been.

Unidentified Audience Member: OK.

Jason Rhode: I mean, they're well-regarded for an algorithm that's referred to as noise suppression, but again, I don't--personally I don't know how you keep that out of being sucked into apps processors and things over time.

Unidentified Audience Member: So folks could you use your IC developer noise suppression algorithms? Is that fair to say?

Jason Rhode: Yes, exactly. Exactly. Or, I mean, I suppose you could use it with one of theirs and run their algorithm in the processor, but I don't think that's the case in this particular socket.

But it gets to a good point. When we enter a new business, we're very careful to look at how sticky it's going to be. And one of the ways that, we think, one of the best ways we know to make our products really sticky is to have a lot of interaction between the analog and digital. So, and to contrast, for example, noise suppression that we were talking about, it's kind of a one-way algorithm. You digitize the signal, and from then on, everything is in the digital. You could do it in a purpose-built chip, you could do it in a DSP, you could do it in the apps processor, but it's all contained in the digital.

Things that we think are more interesting are things like echo cancellation or noise cancellation, where there's a part of the feedback loop in the algorithm that is crossing the analog-to-digital boundaries, so that A-to-D converters, D-to-A converters, things like that, are in the middle of the feedback loop. Things like latency or delay become very, very critical, and it's hard to then separate that algorithm out from the analog chip. So by paying attention to things like that, getting into businesses where we think we've got some stickiness over the long term, that's really kind of one of our key differentiating targets.

Unidentified Audience Member: I guess strategically longer term, why does that bother you? I guess, by end market in smart phones, but why does just bet the house on it? Why only audio? There are many components, you have this relationship with the big guys, why just audio?

Jason Rhode: Well, when I took over in 2007, we kind of looked at what was being successful in the company and what wasn't. I think the best thing that we did at the time was chop off a lot of things that were not being successful. We focus, you know, like crazy on what we can be the best at. You know, TI is a wonderful company they have a lot of products across pretty much everything we could ever imagine doing, so us trying to compete with them by doing more and more seems like a bad strategy. We need to focus on a small number of things that we can be among the best at, tailor our sales and our customer approach towards our strengths, and then certainly over time look to expand either with our existing technology in new markets, or new technology in our existing markets, expand that content in the boxes we're already shipping in.

So, I mean, you have a perfectly good point. We've got this great technology and we can find ways to use it--we can find new ways to use it in the same boxes we're already shipping in, and that's a big goal of ours. So we don't see ourselves, in the long term, as an audio supplier. That happens to be how our signal processing manifests itself today, but we do think there's a lot of other applications for it that we'll target over time.

But, you know, there's a ton of lessons to learn from other companies in the past, of taking your eye off the ball with either the customer or the product lines that got you where you are today. And frankly, for the last three or four years, it has been challenging simply to keep up with the opportunities that we've had in audio.

Unidentified Audience Member: 2013, 2014, we probably would see you--it's probably already, I guess when you say expanding, it's probably longer term?

Jason Rhode: Well, we've been investing, for example, in LED for a number of years. We expect to see that slowly grow over the coming years. We think we can turn that into a significant business, and we're excited about the opportunities. We've been investigating new areas. We try not to get too far ahead of ourselves.

Unidentified Audience Member: I was referring specifically to smart phones. Specifically about smartphones, would it be in 2013, '14? Would just be audios? Or is there a time when we could see something else?

Jason Rhode: Well, I don't want to get too far ahead of ourselves in terms of new product announcements. We try to keep things pretty tight until they're actually on the market.

Unidentified Audience Member: When you talk about gross margin going down to 40% in the second half of 2013, so basically that's about a 10% drop in percentage terms, (inaudible). So you would expect the revenue to decline by about 50% (inaudible). Is that correct?

Jason Rhode: I'm not going to do consensus math for you. I don't--I'll leave the math to you to do for that. We're just guiding to margin today.

Unidentified Audience Member: (inaudible) What changed with the business model now? Has there been a change in the competitive landscape?

Jason Rhode: Yeah, other than to say that we're participating in some pretty large markets with a fair amount of pricing pressure, and we felt like we needed to get more in line with our peers in that space, that's pretty much the comment I'm going to make on what changed on the pricing. And just, you know, the timing of being at this conference happened to line up with all of this. This was our first opportunity to get that news out.

Unidentified Audience Member: Okay.

Unidentified Audience Member: (inaudible)

Jason Rhode: It's complicated. It's a complicated dynamic, but we needed to get our margins in line with--or our pricing in line with what we felt, with what the competition in our space, with the others, our peer suppliers in the portable audio space.

Unidentified Audience Member: (inaudible)

Jason Rhode: So, like I said earlier, that's not the news that we want to hear, but at the same time, the good part of it is that our model hangs together. We believe we're able to deliver

operating profit and revenue growth over the long term that is compelling when compared to the rest of the space.

Unidentified Audience Member: When you're talking prices, have you been able to achieve any kind of assurance from your customers, and the long-term partnership with (inaudible)?

Jason Rhode: Well, I mean, you can assume that--you can certainly assume we don't drop prices for no reason, right? But again, I'm not going to get into a lot of details with respect to customers that don't like to be talked about.

I think that seems to be the end of the Q&A. Thanks for your time. Appreciate the questions. Thanks for the folks that dialed in and listened on the Web.