Company Name: Cirrus Logic, Inc.
Event: Jefferies Global Technology, Media & Telecom Conference
Date: May 6, 2014

<<Robert Blum, Analyst, Jefferies>>

Good afternoon, everybody. Welcome to the 2014 Jefferies TMT Conference. My name is Robert Blum, bit of a giveaway by my accent. I am a European tech analyst for Jefferies covering semiconductor and telecom equipment spaces. It's my great pleasure to introduce Jason Rhode, CEO of Cirrus Logic. The format today will be presentation followed by a short Q&A. And then there is a breakout session directly after this in the Xavier room. Thank you.

<<Jason P. Rhode, President and Chief Executive Officer>>

Thank you. So before we get started, I've got not one but two pages of Safe Harbor-ish looking things, this one in particular being related to our announced intent to acquire Wolfson Microelectronics and the second one being a more standard forward-looking statements type document.

Since this is webcast, we do have a fair amount of retail people that are involved in our stock, I will just take the opportunity once again to highlight that they should look at our – as should you all, look at our Form 10-K, all the risk factors. We spend a fair amount of time on that.

These are the kinds of things that go bump in the night in our industry and also the type of things that we spend a lot of time making sure don't happen, but nevertheless, we're not to say we can't and there's a lot of risk involved in our industry. If you think a semiconductor is a part-time train driver, then you should read all these stuff in a lot of detail, I mean, not so much – not so much you guys, I assume you are not – that's not what it is.

So Cirrus at a glance, we've been around for a long time, since 1984. Cirrus is one of the founders of the fabless semiconductor movement and maybe I don't that it was necessarily the first, but it literally was one of the first successful fabless semiconductor companies founded by Mike Hackworth/Suhas Patil.

There has been a lot of different things over those – that many years but a notable acquisition of Crystal Semiconductor in the early 1990s moved us heavily into the analog and mixed signal space and really today, everything that is Cirrus Logic grew out of that acquisition of Crystal.

Our headquarters is in Austin. Our biggest businesses are audio and energy focused but really the vision for the Company is signal processing centric. So first choice in signal processing and today audio and energy are the markets where we're the most excited about deploying that technology. Audio, of the two, obviously, by far the biggest. Our

expertise is really analog/digital signal processing supply chain associated with our fabless status and we're a company that doesn't do commodity products. We do proprietary parts. We don't do pin-compatible devices with other people products. Part of that strategy is obviously maintaining a heavy portfolio of patents.

So we announced last week our intent to acquire Wolfson Microelectronics. That's GBP2.35 per share of existing. A voice for many, many years, the number one question I get at conferences and road shows and whatnot, boy, you guys generate a lot of cash, what are you going to do with all that cash.

So far I haven't got that question today. So that took care of a pretty good chunk of cash as well as we've taken on a $225 million revolver in association with this. The deal is expected to be accretive within the first full quarter after closing.

That said, as much attention is that sort of thing gets us is not why we're doing this. We think there is a huge amount of benefit in the product development teams. We're both targeting a market that is very exciting, growing so much so that earlier this quarter we had to take the difficult step of de-focusing some resources out of our energy initiative to apply those to our audio product lines because we really couldn't see any way to staff all of what we had in front of us in our audio, in particular portable audio product line.

So it turns out, after we got under (indiscernible), the folks from Wolfson had quite the same scenario that this is really a great transition that's happening in our industry as we move from really audio specifically to more audio and voice as an interface. So we expect this deal to close in the second half of 2014. Obviously there is a bunch of regulatory traps that we need to work our way through. We are not expecting any real issues there but there is a process that we need to follow.

The UK in particular has a fair number of restrictions about what we can and can't say publicly. So you will find a fairly exhaustive list of what we are able to say financially about the transaction in the so-called 2.7 documents on our website. That for the most part is really all the detail we're able to get into it at this point on the acquisition itself.

So the rationale though is that it really accelerates our ability to offer complete audio solutions. Both of us have a fairly complementary core product lines quite similar. So we're excited about the strength that that brings to our core product line.

It expands our ability to supply products into the microphone space. And on the Cirrus side, we've got a more significant business in amplifiers. So really from the microphone to the speaker, combined two companies, this really strengthened our competitive position and it broadens and diversifies our customer base.

Occasionally I have gotten the feedback that we should consider diversifying. In that regard, I personally think that diversity in our customer base is kind of a by-product of the market that we're in. Whatever markets that we target, we should aspire to do business with the best customers in all of those market segments and I think the

combination has a really good story to tell in that regard. It expands our product portfolio, gives us access to the microphone technology that they've been developing for many years and are now shipping in volume production.

And two, I think maybe it's my background as an analog IC design person that I think Cirrus' capabilities have been very hardware-centric and that's a great thing as long as the customers that you've got are willing to think far enough ahead that you can really develop custom products or develop hardware roadmap.

But a lot of times, things are moving pretty quickly these days. Customers don't necessarily have the luxury of looking that far down the road. And two, in a process like 55-nanometer where it's on the order of $10 million to $15 million expense to develop a new device, you're really obligated for a lot of the market to have a catalog of devices where we develop custom firmware or a software around that.

And I would say that the Wolfson folks because of where their customer base is and perhaps some of where their executive expertise came from, that's a path that they were further down than we were. So I think that's a great combination as well.

Enhances our scale and global presence, especially, I would say for the Wolfson half of the equation. We're a much bigger company than they are and the synergies and the benefits this scale brings them, I think will be probably pretty meaningful. When Cirrus was $180 million company, it was quite a while ago we were doing most of our development in quarter-micron. Today, it's 55-nanometer. The tape-outs are very expensive, the tools are very expensive and additionally Wolfson have had this microphone business that they've been trying to develop which has been a meaningful investment. So I think taking the product development teams from Wolfson and adding them into Cirrus provides for a sum that is significantly better than the combination of parts.

So – and two, its really acquisitions are difficult. There is all sorts of cultural and other sorts of things that you got to get through. But in working with these guys thus far, it's really been neat to see house what I think will be very, very compatible engineering driven cultures going forward.

So overall at Cirrus, our business model is really to try to partner with the best customers in the space, whatever space we serve, develop meaningful IP that can benefit them and then once we've got our foothold to try to expand more content and more boxes and then repeat that cycle. We think that that leads to a business that can combine great operating margin with great revenue growth and that's what has given us our position as a leader in the mixed signal space.

We really try to focus on tier 1 customers, it's kind of marketing one on one but no matter what market segment you're going after, you should be able to get the attention of number 1or number 2 in the market or you're not doing (indiscernible). That said, we've got a really broad customer base. It happens that from the Cirrus side of things, quite a lot

of our revenue is derived from one customer which is again not that surprising given the market we're serving is quite dominated by our largest customer. But broadly speaking, we are very blessed with a great number of relationships throughout the tier 1 customer base and the acquisition again of Wolfson, I think broadens and diversifies that customer base further.

Semiconductors is a remarkable business because as much as it's a volatile industry and the appearances of things change on a dime, the reality is that developing talent that can go develop the kind of products like this takes years and years and there is nowhere near enough people to do it. So we've put a lot of focus on developing a corporate culture that people love the job they work at. We've been recognized for multiple years in a row one of the best places to work in the country, the best place to work in Central Texas. We have a goal to be the number 1 semiconductor company to work at in Scotland.

But that's partially because we're nice people, but it's also because we're in a creative industry and if you want people to do their best work and you want them to stick around, they need to like their jobs a lot and I think we've accomplished that really well.

So looking at audio in a little more detail, the portable audio market is a big win and growing. I get that question a lot about, geez, what are you going to do, the high-end smart phones are growing down. It's unfortunate that they're merely growing at two or three times the best that the rest of the semiconductor industry is.

In addition to that, not only is there already really high volume and the market is continuing to grow, but the compelling audio and voice experience that we've been able to provide, there appears to be a lot of demand to move that down the product line, not only serving the high end of the smart phone space, but moving that down into mid-tier and other – as well as other form factors.

There's a lot of discussion about wearables and other kinds of form factors going forward. And I don't think overall the market has figured out what that really means yet and what do we really wanted to look like. I think there's going to be a lot of different ways that the voice interface can express itself. It could be merely that you've got a wide variety of devices that are some sort of a satellite to your mobile phone. And maybe in that case, there's not – it's purely a very simple audio interface.

But I think there's a lot of opportunity as these things unfold and become a little bit more mature for voice to become an interface directly to these devices where you don't necessarily have to plug an earphone or have to look at the screen to tell it that I am going to start running now or whatever it is. I think there is a lot of ground left to be seen there and it's a fun thing to be a part of.

Some of those applications will have a big apps processor sitting next to it which is a scenario we're quite familiar with but a lot of these applications won't, a lot of these applications will be literally one or two chips and no processor in the middle of it. And I think that provides for an environment where there's a lot more audio signal processing

done in the device itself versus being sent up to the cloud where a lot of it's done today. So from our base business that we've had for many years of audio DSPs, CODECs, amplifiers, we did an acquisition last fall of Acoustic Technologies, which has gone extremely well.

It was a company that we had partnered with previously, we had multiple customers that we developed together where their code was running on our DSP but additionally they had customers that we didn't have vice versa. I think we've both done a good job of being able to pull ourselves along, pull each other along in that process. They really opened our eyes to the value that some of these software-based end user visible features can provide.

It elevated the game – or it elevated the discussion, I should say, from really being more of a front door, work with the engineers kind of a discussion towards in a lot of cases, it's a much higher-level visible feature within our account, and that's led to some good discussions and it really highlighted for us that becoming more capable on the software side, as well as broadening out the kind of features that we support is a big deal.

So for example, some of the things we specifically got with the Acoustic Tech deal are noise suppression, echo cancellation, multi microphone forming. Our own technologies such as acoustic noise cancellation, boosted amplifiers, very high performance mixed signal, these are things we differentiated on for years and then more coming trends of things like always on, contextual awareness, microphones that government notwithstanding are listening all the time and ready to have your device act on whatever you said without having to pick it up or push a button or do whatever it might be.

So broadly speaking, outside of portable audio, we've got a very well established base business and while it has not in the past been an area where there is anywhere near as much volume and innovation maybe as what's gone on in portable audio in the past couple of years, it is starting to look like a trend that a lot of technologies that we've developed for portable audio they get perfected there, have application in automotive or home as the technologies mature.

So for example, you can buy a very fancy car these days that have got in theory all sorts of bells and whistles and features that relate to integrating your smart phone, making it all work well together. Most of them really though don't. It's not an especially satisfying voice experience, there is a lot of things in the car that lend themselves very well to having a voice interface to them without – with essentially a hands-free kind of a capability. And so, these things that we're developing, first, for the portable space, I think have got a lot of applicability either in automotive or home.

So we've got a great customer base there, great, again, set of the best teams that you'd want to do business with who have got a very comprehensive product portfolio that we expect to continue to strengthen over time. And while these aren't the same kind of volumes that we see in portable audio, automotive, for example, we've got a custom chipset that we've done for one manufacturer there that the chipset is on the order of $13 per box. So that adds up a lot more quickly than some of the smaller stuff in portable

audio for example. So again to kind of wrap up on the audio side, we've got a strong IP portfolio.

We're targeting some great markets with the best customers and really a lot of what's gotten us where we are today is, it's not that anyone else couldn't do it, it's just that we've done it especially well. Our engineering teams have done a great job of executing on time and to schedule helping our customers succeed on very, very tough timelines. So that's what we look to continue to do as we expand our customer base going forward.

Just to spend a couple of seconds on energy here. We do have a broader energy business. It consists of power meters, seismic things like that. The investment we've made over the past few years that's got more attention is LED lighting. This is an area where I think if any of you bought an LED light bulb, it's for the most part, not a terribly satisfying experience. What I think everybody as a consumer wanted was an incandescent replacement and for the most part what we're getting is a CFL replacement. These things don't work all that well on dimmers.

There is a high rate of product returns and so our target was to develop a device that goes in the light bulb itself, makes it compatible with every dimmer that we can find out there, reduce the return rate, have it not flicker and enable our customers to add other features such as multiple LED strings so that they can achieve a nice warm color and also achieve the same kind of brightness that they were targeting.

So where we are today, it's certainly a growing market like a lot of emerging markets that everyone studies. I think the ramp is a little later and a little slower than most anyone would have expected. It is, I will say, a very fragmented market. So we do expect our revenue to grow in the current year and it is very much a base kind of a business unlike portable audio where there is a small number of socket when that really move the needle.

LED lighting is definitely an inch deep mile wide, even a customer that has – there are a small number of customers that have really meaningful market share but even within those customers, each of their market share is composed of hundreds of different SKUs and you got to go into them all one at a time. So we do expect the percentage of dimmable bulbs to continue to increase as well as the overall market continue to grow, but it is a challenging pricing dynamic and it's a challenging market, as I've said in terms of the inch deep mile wide aspect of it. So it's an area where we just need to focus on base hits and keep working with the customers that we see add – where we can actually add value to their light bulb.

So looking at the financials, we are a very healthy company. Prior to the deal closing here with on the Wolfson acquisition, we had at the end of last quarter $384 million in cash. Cash flow from operations, pretty significant. That like I said was the most frequent question I probably get asked is what are we going to do with all that cash we're generating. I think we answered. We do take on a modest amount of debt relative to our overall business to support the acquisition, but we feel like we're in a very good position relative to our overall balance sheet. We do have an existing $60 million or so remaining

on an existing authorized buyback. We have done a good job over time in taking the share count down. We view that as a good use of cash in lieu of an acquisition that we believe we can make really, really successful, which is a hard thing to find.

We got $54 million of deferred tax asset and other tax credit remaining. When I took over, I sworn to everybody we were going to actually use that whole and all of our NOLs that they laughed at me. I wasn't actually serious when I said it either. I don't think we would. Significant decrease in share count over time, we don't do a buyback, we don't announce a buyback to beat or just to demonstrate confidence in our business or any of that business. Our goal is to get shares off and retire them and we've done a good job of that over the past six or seven years.

So what we are doing though is definitely an expensive proposition. We've had to make meaningful investments over time. You can see a lot of trend that has gone into getting us to a position where we're capable of taping out as many devices as we're expecting to do over the next quarter or so in 55-nanometer. It's a really exciting node for us.

There is a lot of capabilities that we can bring to bear in 55-nanometer that were unheard of at 180. If we took our standard stereo CODEC and migrate it that from 55 to 180, all you would do is, make it a little bit smaller and a lot more expensive. And that obviously is not a great value proposition to customers. The reason for us to migrate to 55 nanometer is, we can add a lot more value.

We can add more features and functions, more DSP capability, give our customers the ability to do more programming, and have their own secret sauce incorporated into the product from a software perspective.

It's a huge opportunity for us to add content, add value. So associated with that though is the fact that we have to do tape-outs in 55-nanometer, which is more expensive from a tape-out perspective as well as tools and capabilities for the company as a whole, that we have to spend additional money on.

So we certainly, it's one of these things where you would like to see in an ideal world, these expenses would sort of pace themselves out over the course of the year, in a nice steady fashion, but like everything else in your life, it doesn't really work that way, kind of things lump up and when it rains, it pours, which is from our perspective greatness, it's a good kind of expense to have, these extra tape-outs.

So I say all that, and to just to highlight the point that we have quite a few of these tape-outs that are expected in the early portions of our fiscal year, so don't draw a straight line between those points and our OpEx and expect your model is going to look great for the rest of the year.

We do expect to continue to invest heavily in our business, but there were some specifics and a lot of things happen, and all at once that drove that Q1 outlook for our expense to be where it is.

It was said for many years, our business model in long term, we looked at our peers in the industry and ranked at – racked and stacked the best names out there; we came up with a 15% revenue growth, and a 20% op margin would put you in the upper third of both of those lists.

We think the combination of those two targets is a great thing, we feel like we've got a very good opportunity to remain consistent with that model going forward.

I don't belabor the point too much, but the guidance we put out just a few weeks ago, but pointing towards a good year for us in advance of some of these 55-nanometer products going to production as early as the January quarter next year, early as, early in 2015, which is actually quite a pay type, timing schedule from our perspective.

So we feel good about the ability for us to be able to telegraph that we expect it to be flat, flattish in the current fiscal year, leading into a meaningful product cycle for us going into next year.

So a pause here, while you take in the glory of our GAAP to non-GAAP reconciliation, got a couple of minutes for questions, and then we've got a breakout Q&A after. Any questions from the crowd?

Q&A

<Q>: What does your largest customer represent as a percentage of revenues?

<A – Jason P. Rhode >: It moves around quite a bit quarter-on-quarter based on mix within the 70% range last quarter.

<Q>: And typically do you – it's a competitive socket you are going for, and over the course of history, how often have you won or lost, and we won that same socket?

<A – Jason P. Rhode >: We don't get into the specifics of our business with our largest customer in a lot of detail, I would say that broadly speaking, when we have the opportunity to do custom products for people, we take them, it's a very complicated process, so back and forth to do that, that helps make our sockets a lot stickier than they otherwise might.

And overall we really target customers that are going to value what we're doing for them and not take the partnership lightly and have it – but at the same time it's a competitive industry, and we need to do a good job of continuing to add value for people or they're not going to keep on the users. But as far as particulars of this socket or that socket, I can get into.

<Q>: We're familiar with your customer concentration, can you talk to us about the customer concentration at Wolfson, and kind of how larger largest customer would be one you pro forma for the Wolfson revenue?

<A – Jason P. Rhode >: Well, so their largest customer was Samsung. I think there were 47% of their revenue last year. So it's quite a large amount of concentration, I'm sure everybody that's given me a hard time about having customer concentration before will now give me twice as much of it, because we're concentrated with two, but it's actually not a huge percentage of revenue for us as a total, but obviously very valuable customer nonetheless.

<Q>: Was there content in the Samsung device comparable to your content in your largest customer's device?

<A – Jason P. Rhode >: I mean it's a wide array of sockets, so I would say the range of ASP is probably on my order.

<Q>: I'm just wondering if there was an option for you to sell some of your products to Samsung now that you have…

<A – Jason P. Rhode >: Well, I mean there's always been that option. But I mean, I think that each of our companies are good at what we're good at, we've developed some customers base, and there's some overlap there, but I would expect both teams are intended to keep on what they were doing, I mean that's the goal.

<Q>: Can you cross sell product source?

<<Jason P. Rhode, President and Chief Executive Officer>>

There is certainly opportunity for that, and we always have to take that as it unfolds. And I think that's it. We're out of time. Thanks for your attention, thanks for the questions. I appreciate it.