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PRESENTATION

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

I'm Blayne Curtis. Very happy to have for our next presentation Cirrus Logic, from the company, John Forsyth, President and CEO. So John, welcome. And last time we were talking you were just officially taking over the reins of the company. Obviously, a lot has transpired from a backdrop. But you also, as a company, you ramp this power conversion control, socket, your largest customer, you also bought Lion Semi. So I'm going to ask you a similar question, kind of what's the vision for Cirrus? You've already moved past just being an audio company, but you continue to bolster this power strategy. Where do you see this company over the next 5 to 10 years?

John M. Forsyth - *Cirrus Logic, Inc. - CEO, President & Director*

Yes. Thanks, Blayne, and thank you again for having us. I'm pretty sure last year when we had this conversation, we did not think this one would be over Zoom as well. But it's a pleasure to be here, nonetheless. Yes, I think you hit right on it. I want Cirrus to be known as a leading-edge mixed signal company across a much wider range of product areas and markets than we are today. To do that involves strengthening our core audio business, but also building a really strong high-performance mixed signal business, and we broke that out this year because we want to highlight that, that's really going to be a big growth engine for the company.

And so when I think about where Cirrus fits, I think -- I don't think you were going to come to us because we have the largest back catalog of off-the-shelf mixed signal parts. But I think you'll use our products because we solved really hard mixed signal problems in a way that others can't or at levels of performance or power consumption that others can't match - or in packages that others can't beat.

And if you look at that power conversion socket that we just ramped, one of the reasons we are able to win that opportunity over maybe some names that you might more traditionally associate with that kind of socket is that we're able to leverage a lot of investment during mixed signal stuff at advanced technology node, so typically more advanced than you find in the power space, which meant we were able to pack a lot of processing and intelligence close to the power management aspects of it alongside the analog in a single die when others couldn't. And so we believe that -- like I think that's a trend in general, the packing more smart, close to the analog domain is really important in a bunch of areas, and we're incredibly well placed to take advantage of that.

QUESTIONS AND ANSWERS

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

You kind of actually just answered my second part. I mean the question was going to be in audio, it played in your converter strength and Cirrus always had that converter asset that you use in a bunch of different end markets over the whole period. In power, you just mentioned the leading edge. But I mean, there are definitely companies that are in this space that do power conversion very well. What's the differentiators for Cirrus? I mean, I think you just answered leading edge. Are there any other factors as to why you're winning this hope?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes. Yes, I think I can elaborate on it a bit. I mean, you're absolutely right about the converted technology, definitely one of our strengths. And more broadly, like we think of our strength is like solving hard signal processing problems at really low levels of power and with really low latency. And that tells you that we're good at building a good mix of digital and analog in our chips. And our sweet spot is going to be where there's a really strong rationale for the being a lot of processing close to that boundary. So it matters.

To give you an example, it matters with something like the camera controller because you want to process the inputs that are coming from inertial sensors super, super quickly in order to be able to then drive motors that are controlling camera elements and course direct accordingly in tiny, tiny fractions of the second very, very high frequency. It's a compelling logic for that processing to be on die. So that's obviously an area where our expertise comes to the fore.

There are other people if you didn't need that much digital, if there wasn't that much processing, other people, frankly, could do it cheaper because they'd be on a node, which is more adapted to that. But maybe to pick another example because it's not always purely latency driven. There may be other things which come into play. In the case of power, again, that's an area where we see growth of processing in certain areas around the battery. So traditionally, those have been fairly -- those have been charging and discharging, there haven't been a lot of spots involved in that. But as you get into kind of more proactive management of the charging process and the discharging process in order to manage battery health, battery longevity and so on and monitor battery performance. There's going to be more smarts in that silicon around the battery. So again, like we see that opportunity to combine a good amount of digital with analog in a kind of growing space where there's innovation. So again, like that pattern is what we're looking for and where we see opportunity.

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

And then it's always hard to ask these questions. I mean, you obviously have one customer you can't talk about. But in terms of taking those 2 building blocks you just talked about, if you look at audio, I remember when you just start off with an off-shelf codec and then you sucked in a bunch of discretets for several years and then all of a sudden, it was a smart codec and you had several dollars of content, right?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Right.

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

The camera is doing one function well, but it's doing one function. Is there an opportunity to kind of -- when you look at the road maps, you see your customer base, are we going to see the same kind of pattern where that you saw an audio over a 10-year period where you're able to grow content every year, 2 years, 3 years as you start to do more for that customer. And then in power, same kind of question, right? I think you just described there are synergies between these 2 chips, but there's no phone with those 2 chips are sitting today, right? So when you map out this trajectory, how much visibility you have into what the customer needs and how well you can fill them and really grow revenue?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes. I think they're great questions. And probably a lot of these things go through a natural kind of a S-curve. It feels that in the power and camera space, we are in a phase where there is really good opportunity and headroom for further innovation. So in the case of the camera controller, I mean -- so we brought our first product to market. And then our camera controller revenues have continued to grow, the blended ASP has gone up, but that so far has been as a function of increased attach rates. So we went from -- when we came to market, we ballparked it to The Street as amplifier sort of \$0.50-something. With the increased attach rate, that rose about 30% to somewhere in \$0.70-and-change. But in parallel to that, we've been investing in a pipeline of further innovation that's going to be coming online in coming years, which is based around more processing and features, so driving improved performance.

And obviously, we -- I don't speak for our customers' products. I would say this is an area, though, where everybody can see their vision and execution around the camera has really been amazing. They have, I'm sure, a need and a desire for more innovation from us as we go forward. So from -- based on that, my expectation is that we can see camera controller blended ASP continue to increase steadily year-on-year in the coming years.

And in the power space, I think it's -- you obviously don't have -- I mean we think about 1:1 attach rate. You don't have a shift around in attach rate driving blended ASP, but there is really good opportunity for innovation there. I would say what we brought to market this year is V1. And we have a really rich kind of backlog of features that we're already in development on additional IP that will grow the value of that over time. So I think it's always hard, a, I don't want to speak about our customers' products and b, any one year, we don't like to talk about what people are launching. But in terms of the longer term view about our opportunity for revenue growth in these areas, we're really upbeat.

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

Another way to back into this pipeline, and I'm going to go down this road, but it is public knowledge. So we need to sign this Global deal I think you almost got beaten up because it hurt the gross margins. But when the 8-K came out, I thought it was interesting. I mean, the value is \$1.6 billion, and it's over 4 or 5 years, depending on when it kind of starts, which for wafer cost, you had to gross that up 3 or 4x for revenue, right? So it's a big number. And I'm assuming you're not going to flip over to your suppliers totally use other wafer spires as well. So I know you don't want to dig into what is driving this. But it seems like a pretty big ramp for me, unless I'm doing that math wrong. So maybe you can just kind of speak to as much as you can to that agreement. And you must have some confidence as to take-or-pay on wafers of that size.

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes, yes. No, you're doing the math correctly. That agreement with Global secures a significant step up in our wafer demand -- sorry, in our wafer supply over the coming years. And that is reflective of some stuff, which is public information and some stuff, which we haven't talked about yet. You talked about the power conversion chip. That's a sizable piece of silicon for a company like ours and that consumes a lot of wafers. We're obviously getting into a cycle where that's going to be in more and more devices. So that's driving it. But there are also additional new areas, new product areas that are additionally going to be driving up content demand for us -- sorry, wafer demand for us. And yes, that is not about us dialing down some other foundry supplier. Our product, we tend to work with the suppliers that are best for a given product. So there isn't really a -- there's no kind of strategy going on around that. Yes, the expectation that's built into that ramp is also kind of highlighted.

We got a few questions about this. I think it came up on the earnings call regarding -- there was a provision in that agreement relating to a specific area of technology, which was an option when we signed the agreement and then when we came to the last earnings call, we disclosed that we had triggered that option. And again, like when we do something like that, you can pretty much read from that, that we had some line of sight on an opportunity. That opportunity became real in a way where we wanted to commit and get going on it. And if we're doing stuff at the foundry level like that, we're typically a couple of years for our product coming to market.

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

Right. I mean that was -- yes, I mean I think I was going to ask that in terms of -- you're obviously just ramped a cycle, but I mean the next one typically would already be in the works. You very delivered the parts of that phone and they're testing it and you're working on the design, and you're probably defining 2 more years beyond that, right? So you should have visibility for at least 3 or 4 years right?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes. I mean, that's one of the great things about our business is that we do have really good line of sight. And so now there's a flip side of it, which is we are often very limited in what we can communicate about that. But my upbeat tone on our long-term growth opportunities is pretty clear, I think. And I would also highlight that outside of that, we -- that custom silicon business is one of a number of growth drivers for the company. And

of course, this year, we acquired the Lion Semiconductor team, which brings another way in which we can engage with other customers around power and build the high-performance mixed signal business in -- across a broader market and a broader set of customers as well.

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

I want to ask you an area that's easier to talk about the Android side. So I've been your hard time in the past of that business not growing. It actually had a good year this year. And some part of it, I think, is supply-driven where maybe some of the incumbent suppliers had trouble. And part of it is your portfolio and the wins you've been talking about, right? So it's kind of 2 parts to that question. One, if you did steal some audio sockets because of supply, how durable are those? And then are you starting to see things like the haptics ramp? You now just acquired Lion and I'm sure there's a pipeline too. Is this Android story more real finally and kind of anything you can elaborate as to where you're most hopeful for.

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

I can certainly add color. I had not noticed that you've given us a hard time Android, Blayne.

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

Thank you about that.

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes, okay. So first of all, I don't think we've picked up any sockets in Android because of supply constraints elsewhere. The story for us has been more or less the opposite in that we have been supply constrained and having to manage our commitments to our customers very carefully. So we would have -- we would be in more devices selling more units if we could get the supply. And that's still true sometime into the future. But that said, that has -- it still reflects the fact that we're really well penetrated with our boosted amplifiers in Android at this point. We are -- and that may create some challenges in the point of view continuing to grow the Android amplifiers business because we're in most of the sockets that you want to be in now.

If you're building a flagship Android phone, you're going to -- and you care about audio, you're going to look at Cirrus as your preferred supplier for that. But continuing to drive that business is a priority for us. Haptics is more of a slow burn in Android. It hasn't been fully embraced in the way that it has on the iOS side, but it has continued to grow steadily. I think what we've seen happened this year where we have picked up sockets to your point, through constraints on other suppliers has been driving -- growing audio in the PC business, right?

So that's certainly an area where we had a strategy to attack that market and that -- we actually accelerated our growth faster than we expected there because there were codec opportunities, which we hadn't foreseen and that we were able to fulfill. So that, as we go forward, the PC market, again, from the point of view of just driving increased diversity of our revenues as well is important. It helps us get exposure to more markets and more customers beyond smartphones. So we see both codec and boosted amplifiers and then potentially some haptics and in the long run, some power as being relevant growth areas for us in PCs, and in particular, ultra-boost.

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

And when you -- just finishing on some of the audio questions, audio was -- I mean, if you look your model up 2% in '20, it's probably flat this year, depending on what December turns out to be. So I think when you broke out audio mixed signal, you wanted to highlight the story in mixed signal. It seems like a very good story and it seems like it's going to be a very good story for many years in the future. What's the story on audio because even with some of these wins, it's not really growing that much. And I think it's hard to maybe offset the big customer there, but is that going to be a growth business?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

I think we can grow it steadily. I think it can remain a very strong core for Cirrus. Is the growth rate going to be like high-performance mixed signal? No, I don't think so. As I said, we're -- in Android at this point, how many more sockets could we be in that we would get paid for in a way that -- where we see decent gross margins and so on. They really -- the customer really has to care about performance to want to use ours versus another supplier. We're not -- we don't really want to be street fighting over a sand here and there.

So that is going to limit the amount of unit growth we see in Android in the longer run. We're still kind of on the upper path there, but I think that's a realistic amend. And so the PC audio would be the biggest audio growth engine for us. It's still going to be outstripped by high-performance mixed signal elsewhere. But we do see in PCs a reasonable audio content opportunity given that they are becoming more smartphone like. You've seen -- you are seeing now a transition to multiple boosted speaker so in some cases 4, in some cases, 6. And that really is the obvious way that you're going to get better audio out of a really thin chassis. We've seen smartphones go through that. So transitioning to a world where anything in the kind of premium bracket of portable PC is looking at having multiple boosted amplifiers there. That's something we think we can serve well and gives us a good path of audio growth in the future.

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

I want to ask to see if you had mentioned, I mean, before, I mean, look, the camera came and the power conversion, that's where the story kind of pivoted and that's where all the focus has been. Prior to that, you have this voice authentication chip, AMC and headsets were going to be a big driver. You didn't mention either one of those. So is it safe to say that that's less of a focus or...

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes, less of a focus in the -- I think both of those markets just kind of either evolved differently from the way we expected or didn't quite emerge in the way that we expected. And in terms of voice authentication, I think the uses and applications of that outside like telephone banking is still really, really limited. And so that market is just yet to really emerge in the way that we envisaged. The technology is really solid, and we think that, that's likely to get integrated into some products we deliver over time.

In the case of the headsets, again, there was -- we have great technology. I think the way the market evolved was just -- it went very rapidly towards truly wireless earbuds with a lot of that being integrated in SoC, which is not a great fit for us. And so we've had good business in that area. But does it look like a growth engine where we want to concentrate our R&D resources for the long run, no, compared to the opportunities that we saw ahead of us in power and power charging camera and other areas like that.

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

Yes. I do want to go back to that because I mean we started and then we jumped a couple of other topics. But Lion was one I've been doing semis for 20 years. I didn't even know they existed to be honest. So those technology when you bought it. I said who were they? We talked about the synergies potentially with power conversion control, but you're selling it discrete today. So maybe you can just describe what is unique about Lion? What are they being -- why are they being integrated into Android phones? And what's the ability to grow that as a stand-alone opportunity without...

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Right, okay. So yes, the first reason we bought Lion was diversity, the second reason, the synergy that we saw. So what they do is deliver charging chip. And to be clear, this is the charger chip that goes in the device. It's not plugged into a wall. So it's in the device, close to the battery, and it's controlling the way the battery itself gets charged. Why are they being designed in a tool, they have what's called a switch cap architecture for charging batteries, it charges batteries more efficiently than the traditional buck-boost approach to charging. They're not the only switch cap

solution, but they are so far as we've been able to tell, meaningfully the most efficient switch care solution. And the benefits of that are that you can charge more quickly.

Basically, what happens is when you're charging the battery, any inefficiency ends up being heat and limiting the amount of heat you generate, governs the speed at which you can charge the battery. So there are other factors, but that's the main reason why customers really care about efficiency and why Lion's technology and products were gaining a lot of interest and mind share amongst customers when we were looking at them. And we've been in contact with them over the past couple of years and their business was starting to take off. As we were getting to -- we could see the finish line insight on our first power product, which is really in the discharge path.

So I want more revenue diversity and market diversity for Cirrus, Lion checks the responses, at least revenue diversity in Android customers and having the potential to grow in other markets as well, where charging is also going to be very relevant. And then there is that synergy where we believe in the longer run that having intelligence in both the upstream of the battery and the charging path and the discharge path, you will be able to manage the batteries health and charge it more smartly because you learn about the battery, well, you're discharging it, and you want to charge it accordingly in order to optimize the efficiency or longevity of the battery. And there are lots of scenarios.

I mean clearly, we're focused right now on phones, but there are lots of scenarios where you can imagine that kind of capability would be very applicable. So yes, we're really excited to bring them in. They had a great set of wins with Chinese smartphone OEMs, Xiaomi and Vivo use their stuff, and then we think we can continue to build that really meaningfully in the coming years.

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

In terms of the reason they're integrating them, I mean, I think we've talked about in the past, the higher wattage, fast charging, right? It needs to be a certain amount that you care about the heat dissipation. And then same thing with wireless charging, I mean, you could buy a phone with wireless charging without it, works fine, make it a little warm, but it's not burning your desktop. So what's that pivot point, do you see an indication that there was a push to fast charging? Is there a push for more of the OEMs to go even higher in terms of the wattage and...

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes. That's been a really steady trend, actually. I mean there's a point at which 3 watts was considered fast charging, I guess, in some markets, it still is, but then the bar in Android is going to be moved to 120 watts, and it's going to continue. If you look at the USB standard, it provides for up to 200, maybe slightly higher watts. And to deliver all of that, you're going to need to be very efficient because otherwise, you're going to be generating a lot of heat. And to your point, I think it's interesting that, that becomes -- this kind of technology becomes even more relevant in the context of wireless charging because wireless charging has some inherent inefficiencies relative to cable charging and therefore, you're already generating excess heat. So any bit of efficiency you can eke out in your charging is going to be -- is going to have higher value than it is in the cable-based scenario. So we saw that as being very applicable as we anticipate a transition towards greater wireless charging over time.

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

As you said your vision is to make the company more mixed signal. You made one acquisition there. I would say Jason was more adverse acquisitions. I mean, obviously, Wolfson was a great one. But I think this temperature on others were maybe not as much. Or are you more open to kind of M&A as an option to accelerate this diversification? And is there any kind of -- I mean, should we just think about it also being in this power area? Or do you have a vision of kind of being even broader than that?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

Yes. Look, I mean, I think I'm certainly open to it. I think I'm really happy with the addition of Lion to both our technology toolbox and our revenue opportunities. We'd love to find more like that. I think in the past, when we've been very focused on audio, the case for acquisitions in audio was

never -- it was harder to make that because if there's an audio socket we want, we can probably go with it. With the kind of new frontiers for us around power and charging, I think that creates, I think, a much more compelling case for adding technology, adding teams and adding other -- ideally exposure to other markets as well.

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

So I really appreciate the time. We have a few minutes left, but maybe as a last question, I mean, I think the -- you laid out the kind of the road map that you wanted to bring this company in. I'm just curious, what should investors focus on in terms of kind of monitoring the progress that you're making as you're transitioning around? Obviously, of your largest customer, so we get a 1-year view into what you want with them. What else should we be looking for to kind of gauge you on that progress as you diversify the company?

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

I think it's a great question. I think there's a couple of things I'd say. I mean, first of all, to the point you just made, yes, we have that 1-year view and hands to wheel. And to some extent, I think when we grow revenue or win new content, there is some part of the market or The Street that says, "Oh, well, yes, they did that good job, but that's probably it." Whereas -- and then maybe we do it again and they will say the same thing again. Whereas I think my take on it is, well, maybe we're consistently good at doing this thing. So I would say I would recommend that investors look at our kind of long-term language and body language.

If -- we are a cautious company by nature. If we're upbeat about stuff, it's probably with really good reason. We're very thoughtful about that kind of thing. We don't like to overpromise as you know. And yes, and then I would say that as we go forward, we grow revenue. I think we have good opportunity as well to see additional leverage out of our SG&A, but also R&D. So I'm a big believer that we've come through a period where going back 2, 3, 4 years, we came off a revenue peak, lost some content. We've been rebuilding. That has given us some constraints in the past few years on operating margin. I think as we grow revenue, and I feel we've got a really strong pipeline, we should also see the ingredients for building increased leverage of R&D and SG&A as well. So I think that also should be a good measure of progress as we go forward.

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

John, always a pleasure of talking. It sounds like you have a great future ahead. I appreciate the time.

John M. Forsyth - Cirrus Logic, Inc. - CEO, President & Director

All right. Thanks a lot, Blayne. Really appreciate you having us again today.

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