NEW RISK ALERT: (CRUS)

Cirrus Logic Warns of Industry-Wide Foundry Capacity Constraints

Key Apple supplier warns constrained foundry partner may cut it off entirely in favor of better oportunities.

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This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Cirrus Warns Overwhelmed Foundry Partners May Selectively Choose Not To Supply Certain Customers

Like others in the fabless semiconductor space, Cirrus Logic, which makes analog and mixed-signal integrated circuits (ICs), warns the foundries on which it relies may soon become capacity constrained as demand for semiconductors soars. In its latest 10-Q, Cirrus includes a new warning detailing the matter:

> *"Recently, the semiconductor industry has experienced industry-wide manufacturing capacity constraints. These supply challenges are currently **limiting our ability to fully satisfy recent increases in demand for some of our general market products**."*

In the filing, Cirrus reveals it typically doesn't manufacture these items at more than one factory. In addition to concentration risk, Cirrus warns foundry partners may cut it off entirely if capacity might be devoted to other, more lucrative opportunities:

> *"In some cases, our requirements may represent a small portion of the total production of the third-party suppliers. As a result, we are subject to the **risk that a producer will cease production** of an older or lower-volume process that it uses to produce our parts. **We cannot provide any assurance that our external foundries will continue to devote resources to the production of parts for our products or continue to advance the process design technologies on which the manufacturing of our products are based**."*

Cirrus At Risk Of Being Squeezed By Suppliers & Customers

Even if it continues receiving supply from foundry partners, Cirrus warns capacity constraints could result in increased prices. Passing along those prices is especially difficult because Cirrus relies on Apple for the majority of its sales. The latest 10-Q reveals Cirrus' dependence on Apple has increased four hundred basis points in the past quarter:

> *"We had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately* ***87 percent and 83 percent of the Company's total net sales for the third quarter of fiscal year 2021 and 2020****, respectively,* ***and 84 percent and 80 percent*** *for the first nine months of fiscal year 2021 and 2020, respectively."*

Samsung, which accounted for 10% of the company's sales in the first six months of 2020, no longer represents 10% or more of sales, according to the latest 10-Q.