

Cirrus Logic Inc.(CRUS)

\$77.19 (As of 02/03/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 01/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

Summary

Cirrus Logic's Q3 results benefited from robust demand for certain components shipping in smartphones. Solid customer engagement across its portfolio has been a tailwind. With customers ramping up shipments ahead of product launches, the company is benefiting from higher sales of smart codecs and amplifiers in wired and wireless headphones. Apart from the mobile market, rising demand for boosted amplifiers in tablets and laptops is a key driver. Penetration in the Android market is also an upside. Also, growth opportunities in voice biometrics and closed-loop controllers are likely to be the key catalysts. However, weak sales of non-portable audio products are a persistent threat to the company. Fierce competition, adverse currency translations, and a volatile macroeconomic environment are other key challenges.

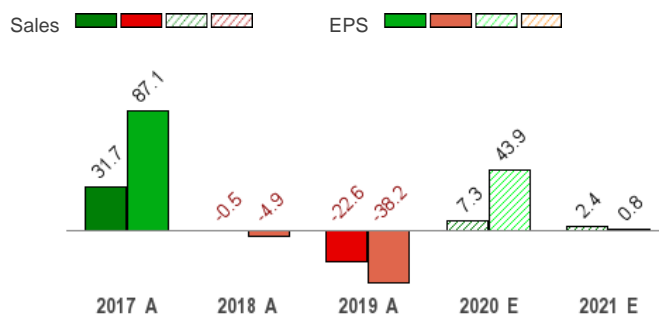
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.63 - \$36.75
20 Day Average Volume (sh)	797,453
Market Cap	\$4.5 B
YTD Price Change	-6.3%
Beta	1.11
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Electronics - Semiconductors
Zacks Industry Rank	Top 6% (15 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.9%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	12.6%
Expected Report Date	05/06/2020
Earnings ESP	8.6%
P/E TTM	21.0
P/E F1	20.3
PEG F1	1.5
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	267 E	380 E	375 E	280 E	1,302 E
2020	238 A	389 A	375 A	271 E	1,272 E
2019	254 A	366 A	324 A	240 A	1,186 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$1.35 E	\$1.21 E	\$0.55 E	\$3.83 E
2020	\$0.35 A	\$1.55 A	\$1.41 A	\$0.53 E	\$3.80 E
2019	\$0.28 A	\$1.08 A	\$0.91 A	\$0.37 A	\$2.64 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/03/2020. The reports text is as of 02/04/2020.

Overview

Headquarters in Austin, TX, Cirrus Logic is a fabless semiconductor supplier, which develops, manufactures and markets analog, mixed-signal, and audio DSP integrated circuits (ICs).

The company's chips are used in a wide range of industrial and consumer markets including portable and non-portable media players, smartphones, tablets, home-theater receivers, automotive entertainment systems, televisions, docking stations, as well as wearables which includes, smart watches, action cameras, smart bands and VR headsets.

Apart from this, its mixed-signal converter chips are used in energy-related applications such as digital utility meter and LED controllers for the incandescent light-bulb replacement market.

In fiscal 2019, Cirrus Logic's revenues logged \$1.19 billion.

The company has two reportable segments – Portable Audio Products and Non-Portable Audio and Other Products.

Portable Products include high-precision analog and mixed-signal components designed for mobile devices including smartphones, tablets, digital headsets, speakers and wearables.

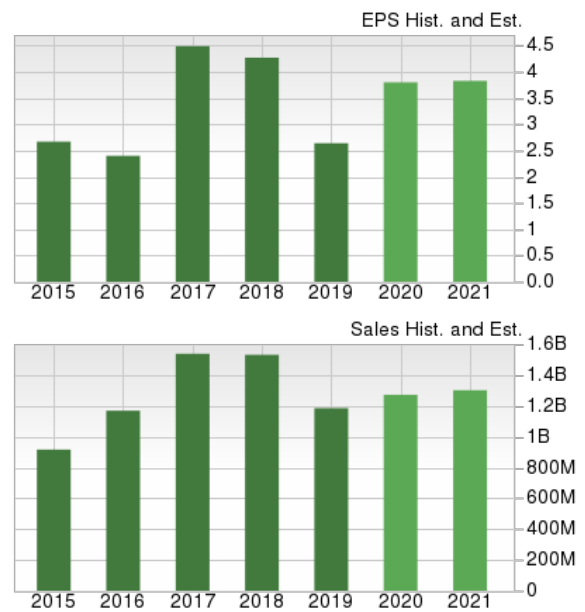
Non-Portable and Other Products include high-precision analog and mixed-signal components targeting the automotive, energy and industrial markets plus non-mobile consumer markets including the emerging smart home.

Portable Audio Products represented 87% of fiscal 2019 revenues while Non-Portable Audio and Other Products made up the remaining 13%.

Cirrus Logic sells products through both — direct and indirect sales channels. The company's list of customers includes worlds' leading electronic manufacturers. Notably, the company's 10 largest customers had accounted for over 91% of fiscal 2019 revenues. Of the 10, Apple Inc. is the largest client, representing nearly 78% of Cirrus Logic's fiscal 2019 sales.

Some of the company's primary competitors include AAC Technologies, AKM Semiconductor, Analog Devices, Austriamicrosystems, Dialog Semiconductor, DSP Group, ESS Technology, GoerTek, Infineon Technologies, Knowles, Maxim Integrated Products, NXP Semiconductors, Qualcomm, Realtek Semiconductor, Skyworks Solutions (through its recent acquisition of Avnera), ST Microelectronics, Synaptics and Texas Instruments.

As of Mar 30, 2019, the company had 1,551 full-time employees.



Reasons To Buy:

▲ Starting with providing high-end graphic chips, Cirrus Logic has broadened its product portfolio and now its chips are used in DVD players/recorders, disc drives, sound chips for computers, Xbox, professional audio, mobile technologies and voice transmission. In the last few years, the company has unveiled a variety of new products related to flagship and mid-tier smartphones and the emerging digital headset market. The products include audio codecs and DSPs, amplifiers, SoundClear embedded software, etc. Growth opportunities in voice biometrics and closed loop controllers are likely to be the key drivers in the long term. Sustained focus on expanding product portfolio will help the company in gaining new customers thereby driving revenues. The company expects to expand content with its new and existing customers in fiscal 2020.

▲ Cirrus anticipates a steady revenue uptick drawn from Android customers, backed by content gains on various OEMs. The company claims that it now ships parts to eight of the top 10 phone makers. Apart from the mobile market, rising demand for boosted amplifiers in tablets and laptops is a key driver.

▲ Being a fabless company, it does not have to own or operate foundries for the production of wafers. Instead, it works with third-party contractors and chip assemblers for the manufacturing, assembling and testing of products. It also frees up resources for research and development (R&D) activity that would otherwise have been locked up in capital assets. This approach permits the company to focus more on the designing, developing and marketing side, which reduces operational and financial risk.

▲ Cirrus Logic is a cash-rich company with a strong balance sheet. Well-off companies not only guarantee protection but are also likely to reward shareholders from its heavy cash registers. The company generated \$206.7 million of cash from operating activities in fiscal 2019. Moreover, it ended fiscal 2019 with total cash of \$445 million and zero debt. As of Dec 28, 2019, it has \$170 million remaining under share repurchase authorization.

Penetration in the Android market and growth opportunities in digital headsets, MEMS microphones and voice biometrics are likely to be the key catalysts for Cirrus.

Risks

- Customer concentration is a major concern for Cirrus Logic. The company may have to pay the price for heavy reliance on Apple as the company generates approximately 82% of its revenues through selling audio chips used in iPhone devices. Decline in iPhone sales is likely to pose a key threat to its top-line results.
 - Cirrus Logic operates in a highly competitive market. The company faces significant competition from semiconductor suppliers that offer standard semiconductors, application-specific standard products and fully customized ICs, including embedded software, chip and board-level products. Some of the company's primary competitors include AKM Semiconductor, Analog Devices, Qualcomm Incorporated, NXP Semiconductors N.V., etc. We expect intensifying competition to keep profitability under pressure at least in the near term.
 - Additionally, the company's international operations are largely exposed to foreign currency exchange rate risk. A substantial portion of the company's sales is derived from outside the United States. Although profitable in the long run, the company's extensive investments in the region will impact margins in the near term. Notably, during each of fiscal 2019, 2018 and 2017, 98% of the company's sales came from operations outside the United States. Hence, we believe that any unfavorable currency fluctuations and an uncertain macroeconomic environment may hinder growth at the company.
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Last Earnings Report

Cirrus Logic Q3 Earnings Surpass Estimates

Cirrus Logic delivered third-quarter fiscal 2020 non-GAAP earnings per share of \$1.41, which topped the Zacks Consensus Estimate of \$1.12 as well as the year-ago figure of 91 cents.

Total revenues of \$374.7 million also surpassed the Zacks Consensus Estimate of \$346 million and improved 16% year over year as well. Higher-than-expected volumes of boosted amplifiers, haptic drivers and smart codecs shipping in smartphones drove revenues.

However, on a sequential basis, revenues declined 4% due to reduction in sales to certain Android customers, ahead of product launches in the first half 2020.

Quarterly Details

Segment wise, portable audio product revenues (92% of total revenues) came in at \$344.87 million, up 19.5% year over year. However, non-portable audio and other products (8%) decreased 16.4% to \$29.8 million.

Cirrus Logic's largest customer, apparently Apple, accounted for 83% of its sales for the reported quarter.

Non-GAAP gross profit of \$197.8 million increased 21% on a year-over-year basis. Non-GAAP gross margin expanded 240 basis points (bps) to 52.8%, driven by a favorable product mix. Supply chain efficiencies and cost reductions on certain products were also an upside

Cirrus Logic's non-GAAP operating expenses inched up 2.8% to \$103.2 million. Non-GAAP operating income of \$94.6 million too surged 50.1%. Moreover, non-GAAP operating margin expanded 590 bps from the year-ago quarter to 25.3%.

Balance Sheet and Cash Flow

The company exited the fiscal third quarter with cash and cash equivalents of \$342.3 million compared with \$221.9 million at the end of the earlier reported quarter.

Accounts receivables were \$175.9 million compared with \$207.96 million in the last reported quarter. Notably, the company did not have any long-term debt during the quarter under review.

Cash flow from operations was \$128.7 million in the quarter. As of Dec 28, 2019, the company has \$170 million remaining under its share repurchase authorization.

Outlook

The company expects fourth-quarter fiscal 2020 revenues between \$250 million and \$290 million, indicating a decline of 28% sequentially but an improvement of 13% year over year at the midpoint.

The guidance provided suggests strong demand for certain components shipping in smartphones, offset by normal seasonal trends.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	8.41%
EPS Surprise	25.89%
Quarterly EPS	1.41
Annual EPS (TTM)	3.68

Recent News

On Jan 30, 2020, Cirrus Logic named John Forsyth as president of the company.

Valuation

Shares of Cirrus have gained 47.9% in the past six months and 99.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 26.7% and 20.8% in the past six months, respectively. Over the past year, while the Zacks sub-industry gained 35%, the sector gained 24.4%.

The S&P 500 Index has increased 14.9% in the past six months and 17.7% in the past year.

The stock is currently trading at 21.75X forward 12-month earnings, which compares to 12.54X for the Zacks sub-industry, 21.98X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.78X and as low as 9.25X with a 5-year median of 14.86X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$89 price target reflects 25.01X forward 12-month earnings.

The table below shows summary valuation data for CRUS

Valuation Multiples - CRUS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.75	12.54	21.98	18.5
	5-Year High	38.78	27.5	22.03	19.34
	5-Year Low	9.25	5.74	16.87	15.18
	5-Year Median	14.86	11.42	19.28	17.46
P/S F12M	Current	3.51	6.95	3.58	3.43
	5-Year High	4.01	6.95	3.58	3.43
	5-Year Low	1.19	2.58	2.3	2.54
	5-Year Median	1.97	5.84	3.02	3
EV/EBITDA TTM	Current	16.24	24.47	12.29	11.95
	5-Year High	19.15	26.06	12.59	12.85
	5-Year Low	4.79	11.85	7.68	8.49
	5-Year Median	8.74	18.02	10.52	10.66

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Top 6% (15 out of 254)



Top Peers

STMicroelectronics N.V. (STM)	Outperform
Synaptics Incorporated (SYNA)	Outperform
Analog Devices, Inc. (ADI)	Neutral
Maxim Integrated Products, Inc. (MXIM)	Neutral
NXP Semiconductors N.V. (NXPI)	Neutral
QUALCOMM Incorporated (QCOM)	Neutral
Skyworks Solutions, Inc. (SWKS)	Neutral
Texas Instruments Incorporated (TXN)	Neutral

Industry Comparison Industry: Electronics - Semiconductors				Industry Peers		
	CRUS Outperform	X Industry	S&P 500	ADI Neutral	NXPI Neutral	QCOM Neutral
VGM Score	B	-	-	D	B	F
Market Cap	4.53 B	723.46 M	23.66 B	40.58 B	35.14 B	98.79 B
# of Analysts	6	2	13	12	8	9
Dividend Yield	0.00%	0.00%	1.82%	1.96%	1.19%	2.87%
Value Score	D	-	-	D	B	D
Cash/Price	0.08	0.18	0.04	0.02	0.10	0.13
EV/EBITDA	24.65	7.64	13.87	17.87	8.93	10.29
PEG Ratio	1.45	1.87	1.97	1.86	1.20	1.50
Price/Book (P/B)	3.59	2.44	3.24	3.46	3.74	21.42
Price/Cash Flow (P/CF)	22.13	10.93	13.40	14.82	10.49	20.72
P/E (F1)	20.31	20.65	18.48	23.03	15.03	20.97
Price/Sales (P/S)	3.64	2.80	2.60	6.77	3.96	4.07
Earnings Yield	4.92%	2.81%	5.40%	4.35%	6.65%	4.76%
Debt/Equity	0.11	0.08	0.72	0.44	0.78	2.74
Cash Flow (\$/share)	3.49	0.73	6.92	7.42	11.98	4.17
Growth Score	A	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	1.56%	3.58%	10.80%	21.84%	13.04%	-8.63%
Proj. EPS Growth (F1/F0)	43.94%	21.57%	7.46%	-7.27%	-7.07%	16.51%
Curr. Cash Flow Growth	-36.48%	0.75%	10.59%	-9.88%	-15.36%	-22.34%
Hist. Cash Flow Growth (3-5 yrs)	4.16%	12.15%	8.55%	24.75%	25.48%	-10.62%
Current Ratio	4.01	2.94	1.21	1.32	1.90	1.88
Debt/Capital	9.61%	8.84%	42.91%	30.72%	44.63%	73.24%
Net Margin	12.52%	1.09%	11.76%	22.75%	2.74%	18.07%
Return on Equity	15.06%	2.76%	17.24%	16.39%	24.09%	77.78%
Sales/Assets	0.82	0.69	0.55	0.28	0.42	0.72
Proj. Sales Growth (F1/F0)	7.33%	8.65%	4.22%	-5.46%	4.32%	-9.77%
Momentum Score	A	-	-	C	D	D
Daily Price Chg	0.49%	0.32%	0.67%	0.23%	-0.91%	1.37%
1 Week Price Chg	-7.67%	-6.88%	-2.60%	-6.65%	-6.22%	-4.84%
4 Week Price Chg	-6.72%	-3.24%	-0.76%	-5.92%	-0.55%	-0.03%
12 Week Price Chg	9.12%	5.10%	2.84%	-2.27%	6.29%	-5.84%
52 Week Price Chg	105.40%	12.72%	13.93%	10.33%	41.71%	74.04%
20 Day Average Volume	797,453	187,538	1,915,782	2,040,363	2,475,584	9,280,198
(F1) EPS Est 1 week change	12.59%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	12.59%	0.00%	0.00%	0.00%	-1.45%	0.00%
(F1) EPS Est 12 week change	12.59%	0.00%	-0.13%	-9.58%	-1.35%	5.72%
(Q1) EPS Est Mthly Chg	99.50%	0.00%	0.00%	0.00%	-1.60%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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