

Cirrus Logic Inc.(CRUS)

\$68.43 (As of 08/04/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

Cirrus Logic continues benefiting from robust demand for certain components shipping in smartphones. Solid customer engagement across its portfolio is a tailwind. With customers ramping up shipments ahead of product launches, it 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. Growth opportunities in voice biometrics and closed-loop controllers are likely to be the key catalysts. The stock has outperformed the industry over the past year. 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 challenges.

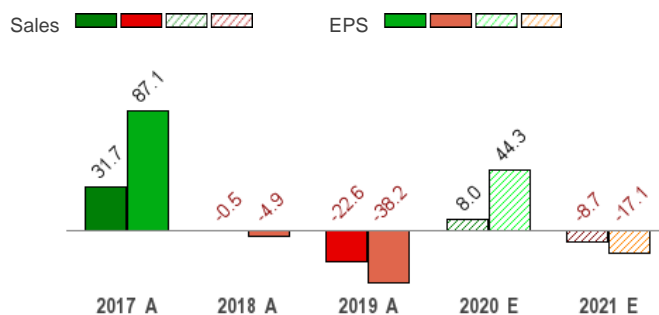
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.63 - \$47.04
20 Day Average Volume (sh)	839,488
Market Cap	\$4.0 B
YTD Price Change	-17.0%
Beta	0.97
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Electronics - Semiconductors
Zacks Industry Rank	Top 46% (116 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	76.7%
Last Sales Surprise	7.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	16.4
P/E F1	21.7
PEG F1	1.6
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	276 E	362 E	358 E	264 E	1,260 E
2021	243 A	290 E	354 E	282 E	1,169 E
2020	238 A	389 A	375 A	279 A	1,281 E

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.62 E	\$1.20 E	\$1.14 E	\$0.51 E	\$3.78 E
2021	\$0.53 A	\$0.90 E	\$1.19 E	\$0.67 E	\$3.16 E
2020	\$0.35 A	\$1.55 A	\$1.41 A	\$0.68 A	\$3.81 E

*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 08/04/2020. The reports text is as of 08/05/2020.

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 2020, Cirrus Logic's revenues logged \$1.28 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.

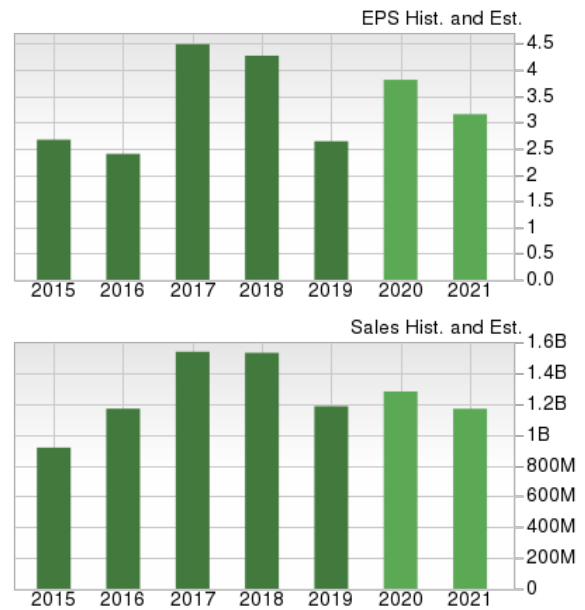
Non-Portable and Other Products include high-precision analog and mixed-signal components targeting the automotive, energy and industrial markets plus non-mobile consumer markets including the emerging smart home.

Portable Audio Products represented 89% of fiscal 2020 revenues while Non-Portable Audio and Other Products made up the remaining 11%.

Cirrus Logic sells products through both — direct and indirect sales channels. The company's list of customers includes worlds' leading electronic manufacturers. Notably, Apple Inc. is the company's largest customer representing nearly 75% of its fiscal 2020 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.

The company employees more than 1,440 people globally.



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 Logic 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. As of Jun 27, 2020, the company had cash and cash equivalents of \$316 million while long-term debt was \$130 million. Besides, its times interest earned ratio of 186 is way higher than the industry average of mere 3.5. Also, its total debt-to-capital ratio of 0.11 is much lower than the industry average of 0.42. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.
- ▲ Cirrus Logic's strong operating cash flows have helped it enhance shareholders' wealth through share repurchases. In the fourth quarter and fiscal 2020, the company generated operating cash flows of \$49 million and \$296 million, respectively. During the same periods, it bought back shares worth \$50 million and \$120 million, respectively. In fiscal 2019, the company had repurchased shares worth \$160 million. Share repurchases are good way of enhancing shareholders' wealth while boosting the company's earnings. The company's ability to generate solid cash flows is expected to help it sustain current share repurchases, at least in the near-term.

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.

Reasons To Sell:

- ▼ 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 75% 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.
- ▼ Cirrus Logic'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 2020, 2019 and 2018, 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.

Sluggish Apple iPhone sales and an intense competition from semiconductor suppliers are expected to thwart Cirrus Logic's near-term results.

Last Earnings Report

Cirrus Logic's Q1 Earnings Beat Estimates, Up Y/Y

Cirrus Logic delivered better-than-expected first-quarter fiscal 2021 results. The company's quarterly non-GAAP earnings per share of 53 cents handily outpaced the Zacks Consensus Estimate of 30 cents, surging approximately 51% year on year.

This year-over-year growth was mainly driven by higher revenues and reduced operating expenses. However, the company's bottom-line results dipped nearly 22% sequentially mainly on lower revenues compared with the fourth-quarter fiscal 2020 figure.

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	7.56%
EPS Surprise	76.67%
Quarterly EPS	0.53
Annual EPS (TTM)	4.17

Revenues

Total revenues of \$242.6 million also surpassed the Zacks Consensus Estimate of \$226 million and improved 2% year over year as well. Increased component shipments and higher content in tablets primarily aided the top line.

However, on a sequential basis, revenues declined 13% due to reduction in unit volumes for certain components shipping in flagship smartphones. Nonetheless, increased component shipments for the recently-launched lower-cost smartphone model partially offset this sequential decline in revenues.

Segment wise, portable audio product revenues (87% of total revenues) came in at \$210.7 million, up 3.8% year over year. However, non-portable audio and other products (13%) decreased 9.6% to \$31.9 million. Sequentially, the audio product segment's revenues slid 15.6%, while non-portable and other products sales increased 8%.

Profits & Margins

Non-GAAP gross profit of \$127.7 million increased 4% on a year-over-year basis. Non-GAAP gross margin expanded 110 basis points (bps) to 52.6%, chiefly on supply-chain efficiencies. Favorable product mix and cost reductions on certain products were also positives.

Non-GAAP gross profit decreased 12.8% sequentially. However, non-GAAP gross margin improved 20 bps to 52.6%. The sequential improvement in gross margin mainly reflects supply-chain efficiencies.

Cirrus Logic's non-GAAP operating expenses dropped 7.3% year over year to \$92.3 million. Operating expenses also declined 6.4% sequentially.

Non-GAAP operating income of \$35.3 million too surged 52.6% year on year. However, it dropped 25.8% sequentially. Non-GAAP operating margin of 14.6% expanded 490 bps from the year-ago quarter but shrunk 250 bps from the previous quarter.

Balance Sheet and Cash Flow

The company exited the fiscal first quarter with cash and marketable securities of \$315.9 million compared with the \$314.1 million witnessed at the end of the prior quarter.

Accounts receivables were \$136.5 million compared with the \$154 million recorded in fourth-quarter fiscal 2020. Notably, the company did not have any long-term debt as of Jun 27, 2020.

Cash flow from operations was \$0.5 million in the fiscal first quarter. As of Jun 27, 2020, Cirrus Logic has \$120 million remaining under its share-repurchase authorization.

Second-Quarter Outlook

For the second quarter of fiscal 2021, the company projects revenues between \$290 million and \$330 million. At the mid-point, the guidance reflects a 20% year-over-year decline but an improvement of 28% sequentially.

Recent News

On May 28, 2020, Cirrus Logic launches advanced haptic and sensing technology solutions for richer, immersive user experiences.

On Apr 23, 2020, Cirrus Logic appointed Catherine Lego to the company's board of directors.

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

Valuation

Shares of Cirrus have lost 17% in the year to date period while have gained 30% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 24.8% and 20%, respectively, YTD. Over the past year, the Zacks sub-industry and the sector increased 61.4% and 37.2%, respectively.

The S&P 500 Index has increased 2.2% YTD and 14.7% in the past year.

The stock is currently trading at 20.3X forward 12-month earnings, which compares to 16.72X for the Zacks sub-industry, 26.41X for the Zacks sector and 22.58X 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 14.90X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 21.32X 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	20.30	16.72	26.41	22.58
	5-Year High	38.78	28.43	26.41	22.58
	5-Year Low	9.25	5.64	16.72	15.25
	5-Year Median	14.90	11.27	19.47	17.55
P/S F12M	Current	3.33	7.54	4.07	3.60
	5-Year High	4.01	7.54	4.07	3.60
	5-Year Low	1.19	4.68	2.32	2.53
	5-Year Median	2.12	5.73	3.14	3.04
EV/EBITDA TTM	Current	13.65	25.56	13.6	12.76
	5-Year High	19.15	25.56	13.60	12.85
	5-Year Low	4.66	11.44	7.59	8.24
	5-Year Median	9.07	18.68	10.89	10.89

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Analog Devices, Inc. (ADI)	Outperform	2
Maxim Integrated Products, Inc. (MXIM)	Outperform	2
Synaptics Incorporated (SYNA)	Outperform	2
Texas Instruments Incorporated (TXN)	Outperform	1
NXP Semiconductors N.V. (NXPI)	Neutral	3
QUALCOMM Incorporated (QCOM)	Neutral	2
STMicroelectronics N.V. (STM)	Neutral	2
Skyworks Solutions, Inc. (SWKS)	Neutral	3

Industry Comparison Industry: Electronics - Semiconductors				Industry Peers		
	CRUS	X Industry	S&P 500	ADI	NXPI	QCOM
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	D	-	-	D	C	C
Market Cap	4.00 B	907.18 M	22.75 B	43.17 B	33.76 B	125.18 B
# of Analysts	6	3	14	12	12	10
Dividend Yield	0.00%	0.00%	1.76%	2.12%	1.24%	2.34%
Value Score	D	-	-	C	C	C
Cash/Price	0.08	0.17	0.07	0.02	0.10	0.09
EV/EBITDA	15.21	6.32	13.09	18.82	16.47	13.39
PEG Ratio	1.50	1.74	2.95	1.89	2.51	1.44
Price/Book (P/B)	3.14	2.93	3.16	3.72	3.73	37.87
Price/Cash Flow (P/CF)	17.62	15.85	12.32	15.79	7.78	26.58
P/E (F1)	21.01	22.35	21.81	25.20	25.06	28.51
Price/Sales (P/S)	3.11	2.62	2.46	7.79	4.02	6.26
Earnings Yield	4.62%	1.99%	4.40%	3.97%	3.99%	3.51%
Debt/Equity	0.10	0.15	0.76	0.44	0.88	4.67
Cash Flow (\$/share)	3.88	0.57	6.94	7.42	15.55	4.17
Growth Score	C	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	1.44%	3.53%	10.46%	16.81%	13.50%	-8.64%
Proj. EPS Growth (F1/F0)	-16.89%	-0.18%	-7.16%	-9.72%	-46.39%	9.94%
Curr. Cash Flow Growth	10.42%	-3.50%	5.47%	-9.88%	10.37%	-22.34%
Hist. Cash Flow Growth (3-5 yrs)	3.55%	10.34%	8.55%	24.75%	24.47%	-10.62%
Current Ratio	4.23	3.30	1.32	1.30	1.74	1.97
Debt/Capital	9.25%	13.53%	44.36%	30.73%	46.92%	82.35%
Net Margin	13.47%	1.55%	10.25%	20.05%	-0.14%	13.72%
Return on Equity	16.75%	3.22%	14.67%	14.51%	19.47%	78.39%
Sales/Assets	0.79	0.64	0.51	0.26	0.41	0.61
Proj. Sales Growth (F1/F0)	-8.77%	2.28%	-1.71%	-8.29%	-10.18%	-13.11%
Momentum Score	B	-	-	D	B	D
Daily Price Chg	-8.14%	0.00%	0.42%	0.52%	1.48%	1.24%
1 Week Price Chg	5.76%	1.36%	0.14%	2.35%	1.54%	18.81%
4 Week Price Chg	9.28%	8.64%	4.97%	-4.44%	4.75%	20.42%
12 Week Price Chg	-0.91%	24.69%	15.30%	9.93%	22.96%	41.48%
52 Week Price Chg	29.97%	33.30%	2.34%	7.23%	20.58%	62.76%
20 Day Average Volume	839,488	266,331	2,082,836	4,150,802	2,597,806	10,014,495
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	3.11%	4.11%
(F1) EPS Est 4 week change	0.00%	0.00%	0.93%	8.90%	5.94%	4.11%
(F1) EPS Est 12 week change	0.00%	0.00%	0.78%	7.64%	5.87%	4.11%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.17%	19.14%	9.33%	-1.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	B
VGM Score	D

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.

Disclosures

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