

Cirrus Logic Inc.(CRUS)

\$69.06 (As of 05/12/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Cirrus Logic's fourth-quarter results benefited 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, 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. 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 challenges.

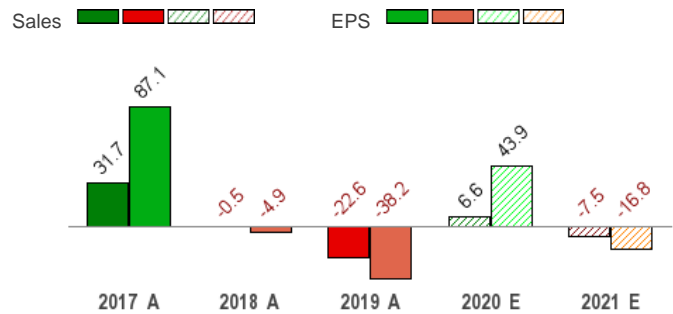
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.63 - \$37.25
20 Day Average Volume (sh)	660,270
Market Cap	\$4.0 B
YTD Price Change	-16.2%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Electronics - Semiconductors
Zacks Industry Rank	Top 19% (49 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	44.7%
Last Sales Surprise	6.4%
EPS F1 Est- 4 week change	-20.7%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	17.3
P/E F1	21.9
PEG F1	1.6
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	226 E	307 E	354 E	282 E	1,169 E
2020	238 A	389 A	375 A	279 A	1,264 E
2019	254 A	366 A	324 A	240 A	1,186 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.30 E	\$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	\$3.80 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 05/12/2020. The reports text is as of 05/13/2020.

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.

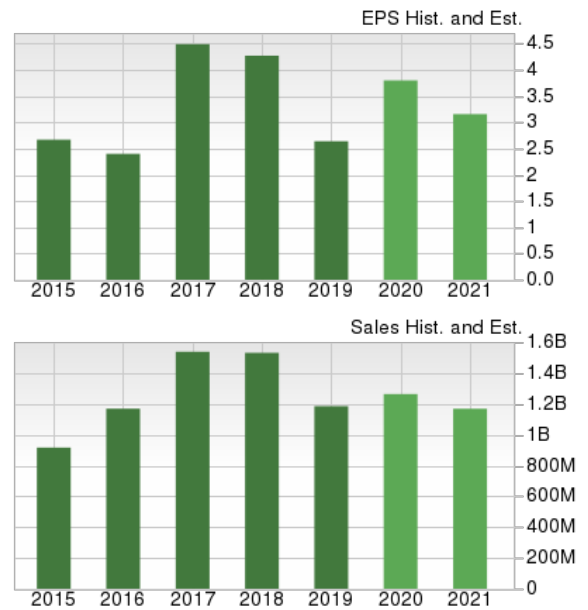
Non-Portable and Other Products include high-precision analog and mixed-signal components targeting the automotive, energy and industrial markets plus non-mobile consumer markets including the emerging smart home.

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 Mar 28, 2020, the company had cash and cash equivalents of \$314 million while long-term debt was \$129 million. Besides, its times interest earned ratio of 169.5 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 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.

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 Q4 Earnings Beat Estimates, Up Y/Y

Cirrus Logic delivered better-than-expected fourth-quarter fiscal 2020 results. The company's quarterly non-GAAP earnings per share of 68 cents outpaced the Zacks Consensus Estimate of 47 cents and surged approximately 84% 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 plummeted nearly 52% sequentially mainly due to lower revenues compared with the fiscal third-quarter figure.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	6.36%
EPS Surprise	44.68%
Quarterly EPS	0.68
Annual EPS (TTM)	3.99

Revenues

Total revenues of \$279.3 million also surpassed the Zacks Consensus Estimate of \$263 million and improved 16% year over year as well. Increased component shipments in smartphones and digital headsets, along with higher content in smartphones and tablets, primarily drove the top line.

However, on a sequential basis, revenues declined 25% due to reduction in unit volumes for certain components shipping in smartphones. Nonetheless, increased volumes of boosted amplifiers and haptic drivers in Android, along with the production ramp-up for a recently-introduced tablet partially offset the sequential decline in top-line results.

Segment wise, portable audio product revenues (89% of total revenues) came in at \$249.7 million, up 21% year over year. However, non-portable audio and other products (11%) decreased 11% to \$29.6 million. Sequentially, product and non-portable audio and other products segments' revenues slid 19% and 1%, respectively.

Cirrus Logic's largest customer, apparently Apple, accounted for 75% of its sales for the reported quarter.

Profits & Margins

Non-GAAP gross profit of \$146.3 million climbed 17% on a year-over-year basis. Non-GAAP gross margin expanded 40 basis points (bps) to 52.4%, chiefly driven by supply-chain efficiencies. Favorable product mix and cost reductions on certain products were also positives.

However, non-GAAP gross profit and margin declined sequentially 26% and 40 bps, respectively. The sequential decline mainly reflects higher allocated supply-chain costs on lower unit volumes.

Cirrus Logic's non-GAAP operating expenses dropped 4% year over year to \$98.7 million. Operating expenses also declined 4% sequentially.

Non-GAAP operating income of \$47.6 million too surged 116% year on year. However, it declined approximately 50% sequentially. Non-GAAP operating margin of 17.1% expanded 790 bps from the year-ago quarter but shrunk 820 bps from the fiscal third quarter.

Balance Sheet and Cash Flow

The company exited the fiscal fourth quarter with cash and marketable securities of \$314.1 million compared with the \$355.4 million witnessed at the end of the prior quarter.

Accounts receivables were \$154 million compared with \$175.9 million recorded in the fiscal third quarter. Notably, the company did not have any long-term debt as of Mar 28, 2020.

Cash flow from operations was \$49.3 million in the fiscal fourth quarter and \$295.8 million for the full fiscal year. During the reported quarter and fiscal 2020, the company bought back stocks worth \$50 million and \$120 million, respectively. As of Mar 28, 2020, Cirrus Logic has \$120 million remaining under its share-repurchase authorization.

Outlook

Cirrus Logic believes it is well positioned to weather the coronavirus crisis and emerge stronger over the long run. The audio chip maker stated that with roughly \$600 million in cash and no debt obligations, it is well poised to sail through this turbulence and keep banking on its growth opportunities.

The company didn't provide any specific data regarding the pandemic's impact on its quarterly results. However, it stated that its supply chain remained robust during these difficult times. Cirrus Logic noted that TSMC and Global Foundries are its main suppliers for wafers and both companies consistently met the production schedules despite the challenges. Therefore, the company did not expect any adverse impact on its supply chain.

Nonetheless, Cirrus Logic projects the pandemic to adversely impact smartphone volumes in the near term, thereby denting its operating results.

For the first quarter of fiscal 2021, the company projects revenues between \$200 million and \$250 million, indicating a decline of 19% sequentially and 5% year over year at the mid-point.

Recent News

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

Valuation

Shares of Cirrus have lost 7.5% in the year to date period while have gained 70.3% over the trailing 12-month period. Stocks in the Zacks sub-industry decreased 4.5% while the Zacks Technology sector gained 0.8% year to date. Over the past year, the Zacks sub-industry and sector have gained 20.8% and 16.8%, respectively.

The S&P 500 Index has fallen 9% in the year-to-date period while has gained 4% in the past year.

The stock is currently trading at 21.38X forward 12-month earnings, which compares to 14.42X for the Zacks sub-industry, 23.75X for the Zacks sector and 21.13X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 22.45X 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	21.38	14.42	23.75	21.13
	5-Year High	38.78	28.43	23.75	21.13
	5-Year Low	9.25	5.64	16.71	15.19
	5-Year Median	14.86	11.27	19.26	17.45
P/S F12M	Current	3.79	6.39	3.62	3.30
	5-Year High	4.01	6.54	3.62	3.44
	5-Year Low	1.19	4.68	2.32	2.54
	5-Year Median	2.06	5.72	3.10	3.01
EV/EBITDA TTM	Current	15.12	21.18	11.56	10.75
	5-Year High	19.15	24.93	12.70	12.86
	5-Year Low	4.66	11.45	7.56	8.28
	5-Year Median	8.93	18.25	10.64	10.77

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Analog Devices Inc (ADI)	Neutral	3
Maxim Integrated Products Inc (MXIM)	Neutral	3
QUALCOMM Incorporated (QCOM)	Neutral	3
STMicroelectronics NV (STM)	Neutral	3
Skyworks Solutions Inc (SWKS)	Neutral	4
Synaptics Incorporated (SYNA)	Neutral	3
Texas Instruments Incorporated (TXN)	Neutral	3
NXP Semiconductors NV (NXPI)	Underperform	5

Industry Comparison Industry: Electronics - Semiconductors				Industry Peers		
	CRUS	X Industry	S&P 500	ADI	NXPI	QCOM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	5	3
VGM Score	C	-	-	D	F	A
Market Cap	4.05 B	789.74 M	19.25 B	39.25 B	27.43 B	88.22 B
# of Analysts	6	2	14	12	11	9
Dividend Yield	0.00%	0.00%	2.21%	2.33%	1.53%	3.16%
Value Score	D	-	-	D	F	B
Cash/Price	0.07	0.22	0.06	0.02	0.04	0.11
EV/EBITDA	22.13	5.57	11.70	17.16	14.42	9.44
PEG Ratio	1.55	2.20	2.61	1.97	2.08	1.17
Price/Book (P/B)	3.29	2.01	2.61	3.36	2.96	28.97
Price/Cash Flow (P/CF)	19.80	11.45	10.36	14.36	6.32	18.79
P/E (F1)	21.68	18.89	19.13	24.68	20.84	21.53
Price/Sales (P/S)	3.16	2.35	1.96	6.82	3.12	3.57
Earnings Yield	4.58%	1.82%	5.00%	4.05%	4.80%	4.64%
Debt/Equity	0.11	0.11	0.75	0.41	0.80	4.42
Cash Flow (\$/share)	3.49	0.57	7.01	7.42	15.55	4.17
Growth Score	A	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	1.44%	3.28%	10.82%	19.53%	14.19%	-8.67%
Proj. EPS Growth (F1/F0)	-16.89%	5.31%	-10.31%	-16.13%	-47.58%	2.89%
Curr. Cash Flow Growth	-36.48%	-4.50%	5.83%	-9.88%	10.37%	-22.34%
Hist. Cash Flow Growth (3-5 yrs)	4.16%	9.69%	8.52%	24.75%	24.47%	-10.62%
Current Ratio	4.10	3.48	1.27	1.08	1.77	1.57
Debt/Capital	9.51%	10.27%	44.25%	28.87%	44.31%	81.54%
Net Margin	12.45%	1.51%	10.59%	21.06%	2.76%	16.36%
Return on Equity	16.46%	4.03%	16.33%	15.38%	24.18%	69.92%
Sales/Assets	0.81	0.67	0.55	0.27	0.43	0.75
Proj. Sales Growth (F1/F0)	-8.77%	1.08%	-2.53%	-10.58%	-12.85%	-14.42%
Momentum Score	F	-	-	A	D	A
Daily Price Chg	-5.89%	-1.57%	-2.55%	-1.68%	-4.12%	-2.56%
1 Week Price Chg	7.72%	6.64%	3.23%	5.97%	9.78%	6.50%
4 Week Price Chg	-0.22%	6.62%	-0.84%	3.48%	6.56%	1.12%
12 Week Price Chg	-12.58%	-10.75%	-21.82%	-10.10%	-26.55%	-10.92%
52 Week Price Chg	51.01%	4.83%	-10.27%	-0.14%	0.16%	-8.95%
20 Day Average Volume	660,270	260,571	2,520,117	2,174,372	3,571,673	8,530,695
(F1) EPS Est 1 week change	-7.86%	0.00%	0.00%	0.00%	-0.07%	0.00%
(F1) EPS Est 4 week change	-20.70%	0.00%	-6.29%	0.00%	-35.14%	1.32%
(F1) EPS Est 12 week change	-27.65%	-19.51%	-16.21%	-9.56%	-53.41%	-16.30%
(Q1) EPS Est Mthly Chg	-65.98%	0.00%	-12.28%	0.00%	-50.71%	10.78%

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	A
Momentum Score	F
VGM Score	C

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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