CRUS Preannouncement, LLTC & SNDK Earnings

Cirrus Logic *(CRUS, $18.05 -3.36, Long—but Upside Incremental on my latest Chip Investment Ideas)*
Shortfall Preannounced: CRUS preannounced expected weakness late-Tuesday and the stock got creamed in a crappy market yesterday. I think the market way over-reacted to the downside and has opened up an opportunity with considerably more potential upside than downside risk at current price levels, although waiting for the dust to settle before engaging is usually a prudent exercise. A disproportionate percentage of CRUS sales go to AAPL.

March-ended F4Q revenue is now expected at $207M and gross margin hit of -10% to 40% after an inventory write-down 'due to a decreased forecast for a high volume product as the customer migrates to one of Cirrus Logic's newer components' and operating expenses of $50M that includes $6M in stock comp. Original guidance called for revenue of $200-220M and consensus was $210 with a range of $201-223, so this preannouncement is not that much of a miss, in my opinion. The bigger hit was preliminary guidance for June-ending F1Q calling for revenue of $150-170M with 50% gross margins and operating expenses of $51-55M including $6M in stock comp. Consensus was $195M with a range of $182-221M.

Given these parameters I calculate the company will still make money both quarters on both a GAAP and pro forma basis. While EPS will get hit a lot worse than sales, these changes temper growth expectations rather than cratering sales and bleeding cash. The shares are currently trading at 1.7-times trailing sales, 6-times trailing EPS, and 2.2-times book with $2.15/share in cash and no debt as the stock kissed its 52-week low.

LLTC		*Linear Technology*			
Qtr:	F3Q	**Grade:**	*D*	***Growth****(qtr-qtr)*	
Rev:	314.5	**Rev:**	+	**Rev:**	+3.0%
GM:	75.4%	**EPS:**	+++	**Fcst:**	+1+4%
EPS:	$0.54	**Fcst:**	- -	**Div:**	$0.26

LLTC released F3Q earnings late-Tuesday and held a conference call mid-day Wednesday. There is nothing NOT to love about LLTC in terms of financials or strategic market and competitive initiatives, but I will probably always struggle with its admittedly-well-deserved fundamental valuation currently reflecting over 6-times sales, 9-times book value (that is 70% cash), and 18- to 22-times earnings. Heck, the 3.0% dividend yield is better than a treasury bond—and probably more reliable at this point. Nevertheless, I remain on the sidelines.

Business level plateau at the level it recovered to in December, customers are ordering cautiously to the low-end of published lead times, and the book-to-bill ratio exceeded 1:1 with particular strength from industrial (for energy efficiency) and automotive (increasing penetration and content). ASPs at $1.84 from $1.85 and positive cash flow from operations for the 108^{th} quarter (I just love quoting that statistic).

Bookings: Industrial at 43% from 42% last quarter with expected strength from Europe and Asia and Japan weak; Communications at 20% from 21% with most large infrastructure and networking customers up modestly (almost no cell phone business); Computer at 10% from 11% with the most decline from notebooks and desktops; Automotive up to 18% from 16% with strength from Europe and Japan, the US improving, and Asia-Pacific flat; Consumer stayed at 3%; and military/aerospace declined. *Sales:* US flat at 29%; Europe at 20% from 17%; Japan at 14% from 15%; and Asia-Pacific at 37% from 39% largely due to Chinese New Year.

SNDK		*SanDisk*			
Qtr:	1Q	**Grade:**	*B*	***Growth****(qtr-qtr)*	
Rev:	1,340.7	**Rev:**	+	**Rev:**	-13.0%
GM:	40.5%	**EPS:**	+	**Fcst:**	+1+4%
EPS:	$0.84	**Fcst:**	+	**Div:**	

SNDK 1Q earnings and call late-yesterday. NAND supply-demand dynamics are favorable with market prices firming, and SNDK expects to be product-constrained all year. While its business is healthy I remain ambivalent on the shares at 2.5-times sales and 20-times earnings, although I admit there could be potential share-price upside to more bullish business expectations.

Revenue split 62% commercial and 38% retail, and SSDs at 20% with a richer mix of client than enterprise. Retail revenue was down seasonally on the quarter but +34% on the year. Retail ASP declined sequentially due to a seasonally leaner mix of imaging cards and a richer mix of USB, emerging markets, and increasing average capacity. While the retail ASP mix was down, prices were raised on many SKUs and retail gross margin was strong.

Total revenue was down by -13% with bits down seasonally by -16% and ASP/bit +2% on a richer mix of SSDs and market price strength (and partially offset by the retail decline). Cost/bit increased +2% as lower flash costs were more than offset by non-flash costs/bit. The flash cost/bit decreased moderately despite a constant mix of less costly 19nm product, due to a richer mix of higher-density product and a slight Yen benefit as it moved to 81 from 79-per dollar. The higher and offsetting non-flash cost/bit was due to a richer sales mix of SSDs and MCPs: with SSDs requiring controllers and system assembly and test; and MCPs requiring non-captive mobile DRAM. SSDs mess-up the ratios: Client SSDs provide average margins and enterprise SSDs deliver high margins, but both come with the benefit of higher ASPs/bit and the disadvantage of higher costs/bit. So increasing sales of SSDs boosts revenue and margin, but adversely impacts the cost/bit metric. In addition, all SSDs are currently manufactured with older 24nm technology NAND but will convert to less-costly 19nm this year. Mix matters.

19nm is the dominant production node, the mix of 19nm and X3 was unchanged on the quarter, and 1Y production will begin 3Q. Industry bit growth of +30+40% is expected this year and SNDK's will be well below that. Technology development continues across planar NAND scaling, 3D BiCS NAND, and 3D Resistive RAM.

—Dan K. Scovel
Semiconductor Analyst

LEGEND

		Grade	
+++	exceeded the high-end of the range		
++	above consensus, within the high-end of the range	A	all +++
+	slightly above consensus	B	all +
o	met consensus	C	all o/+
-	slightly below consensus	D	mixed -/o/+
- -	missed consensus, within the low-end of the range	E	all o/-
- - -	missed the low-end of the range	F	all -

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