

QCOM Buys CSR, LLTC F1Q Miss

LLTC		Linear Technology	
Qtr:	F1Q	Grade:	F
Rev:	371.1	Rev:	-
GM:	76.0%	EPS:	-
EPS:	\$0.53	Fcst:	- - -
		Growth(qtr-qtr)	
		Rev:	+1.6%
		Fcst:	-6-3%
		Div:	\$0.27

Linear Technology (LLTC, \$39.03 +0.22, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

F1Q Miss: Late yesterday LLTC announced disappointing September-ended F1Q results. While revenue, EPS and guidance fell short of expectations, management noted: revenue was consistent with guidance; EPS was hurt by a higher tax rate; and guidance is at the favorable end of an average decline over the last four years of -6%. Decreasing bookings were attributed to seasonally soft industrial and automotive markets that accounted for 43% and 19% of sales, respectively. Cash grew by \$15M to over \$1B on operating cash flow of \$136M or 36.8% of sales, and it returned \$100M to shareholders including \$66M in dividends and \$34M in share repurchases.

While there is much to like about this company—especially its impressive profitability—the fundamental valuation of its shares at over six-times sales and 20-times earnings keeps me on the sidelines. The company will hold its scheduled conference call at 11:30am EDT today.

Qualcomm (QCOM, \$71.86 +1.15, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

Buys CSR: Early this morning QCOM agreed to acquire UK-based CSR for \$2.5B in cash. The deal is expected to close next summer and be accretive to non-GAAP EPS for FY16, the first full year of operation that ends in September. Clearly, QCOM outbid MCHP with greater resources and probably less sensitivity to valuation.

I think this deal underscores that not all wireless technologies are interchangeable, and QCOM needs to broaden its dominance in cellular wireless to include CSR's shorter-range and lower-power Bluetooth to retain its leadership of optimized offerings in the emerging Internet of Things era. Good news for QCOM because they need it and can afford to pay for it, regardless of CSR's legacy baggage.

—Dan K. Scovel
Semiconductor Analyst

LEGEND

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

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