



Analog Devices (ADI)

Updated August 26th, 2022, by Thomas Richmond

Key Metrics

Current Price:	\$159	5 Year CAGR Estimate:	15.3%	Market Cap:	\$81.6 B
Fair Value Price:	\$189	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	08/29/22
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	09/08/22
Dividend Yield:	1.9%	5 Year Price Target	\$304	Years Of Dividend Growth:	18
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Analog Devices (ADI) makes integrated circuits that are sold to OEMs (original equipment manufacturers) to be incorporated into equipment and systems for communications, computer, instrumentation, industrial, military/aerospace, and consumer electronics applications. ADI was founded in 1965 and is an \$82 billion market cap company that's been increasing dividend payments to shareholders for 18 consecutive years. While Analog Devices might seem like a legacy company because it earns about 50% of its revenues from products that they've been selling for 10 years or more, the business is also changing to meet the needs of new markets with its \$10 billion investment in Research and Development over the past 10 years, and their previous acquisitions of companies like Maxim Integrated, Linear Technology, and Hittite. The business is targeting a long term annual revenue growth rate of 7-10% annually, as the company continues to build on its leading markets and benefits from secular trends like Industry 4.0, which is implementing machine learning into factory production, data centers, and augmented and virtual reality.

On August 17th, 2022, Analog Devices reported Q3 2022 results for the period ending July 30th, 2022. For the quarter, the company reported revenue of \$3.11 billion, up 76.7% compared to the prior year's quarter, and this beat analysts' estimates by \$50 million. Most of the steep year-over-year revenue increase is due to the company's recent \$20 billion acquisition of Maxim Integrated to help the company expand its offerings in the automotive and industrial markets. For the quarter, the company saw adjusted earnings-per-share of \$2.52, which beat analyst estimates by 9 cents and represented 46.5% growth in earnings-per-share compared to the year-ago quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.13	\$2.14	\$2.40	\$3.16	\$3.07	\$4.68	\$5.95	\$5.14	\$4.91	\$6.43	\$9.44	\$15.20
DPS	\$1.20	\$1.36	\$1.48	\$1.60	\$1.68	\$1.80	\$1.92	\$2.16	\$2.48	\$2.76	\$3.04	\$4.90
Shares	301	311	311	312	308	369	370	368	369	525	521	715

Over the past 9 years, Analog Devices has grown earnings-per-share at an average rate of 13.1% annually, while the past 5 years have seen an average growth rate of 15.1% annually. Analog has seen growth coming from Industry 4.0 trends in their industrial segment, and growth in the EV market for their automotive segment. The share count grew in 2021 due to Analog's acquisition of Maxim Integrated, a designer and manufacturer of integrated circuits. We expect that Analog Devices will see about \$9.44 in adjusted earnings-per-share for the fiscal year 2022 based on management's fourth quarter earnings-per-share guidance of \$2.57. Over the intermediate term, we expect earnings-per-share to grow at 10% annually, guiding our 2027 earnings-per-share estimate of about \$15.20.

Over the past 9 years, Analog Devices has seen dividends grow at 9.7% annually, and over the past 5 years, dividends have grown at 11.1% annually. Currently, Analog Devices pays a quarterly dividend of \$0.76, which is a \$3.04 annualized dividend. Over the intermediate term, we expect dividends to grow in line with earnings-per-share at 10% annually, which guides our 2027 dividend estimate of \$4.90.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.8	21.2	21.2	18.6	18.9	16.8	15.5	20.3	23.1	24.5	16.8	20.0
Avg. Yld.	3.2%	3.0%	2.9%	2.7%	2.9%	2.3%	2.1%	2.1%	2.2%	1.7%	1.9%	1.6%

Over the past 9 years, Analog Devices has averaged a P/E ratio of 19.8. The security currently trades at a P/E ratio of 16.8, offering a dividend yield of 1.9%, which is lower than the historical average. We think that over the intermediate term, the business could rerate slightly higher towards its long-term average P/E ratio of around 20 as the business is expected to continue to grow earnings-per-share at annual rates similar to the past decade. Therefore, we think the business deserves a similar P/E multiple to the historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

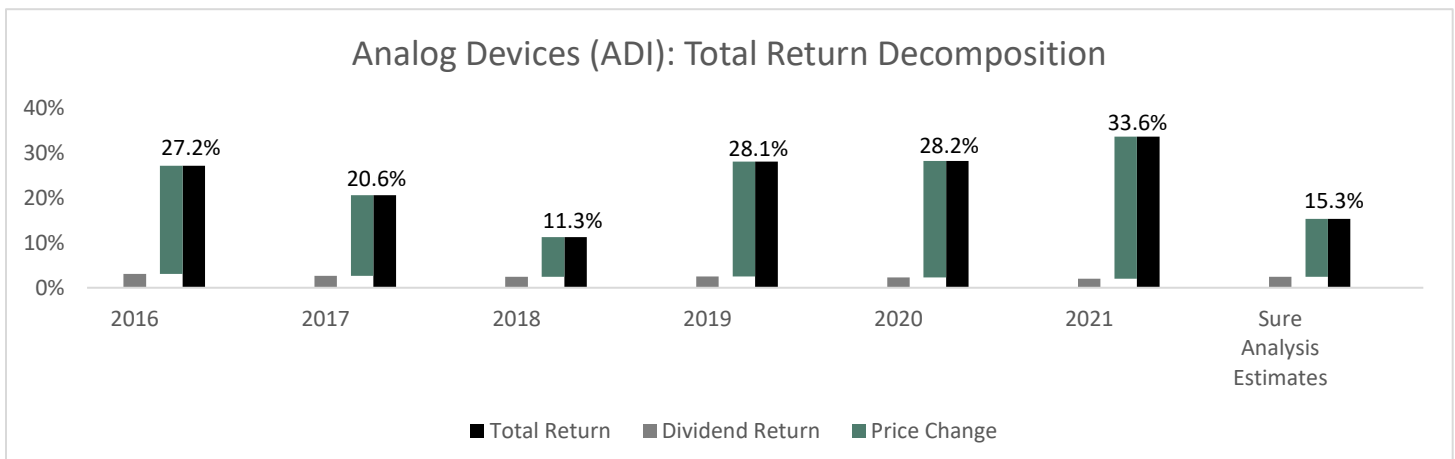
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	56%	64%	62%	51%	55%	38%	32%	42%	51%	43%	32%	32%

Companies should be able to withstand periods of economic hardship, and it's important that they have strong liquidity and solvency ratios. Analog Devices has conservative debt ratios, and the company's low payout ratio below 40% makes us believe that the dividend is safe and will continue to grow. The company has a competitive advantage in the Integrated Circuit market, where the company's scale allows it to compete against companies like Texas Instruments (TXN), Broadcom (AVGO) and Monolithic Power Systems (MPWR). It is a little worrying to see that the company's free cash flow return on invested capital has been trending downwards over the past decade, but we think that the combination of organic growth and inorganic growth from acquisitions like Maxim Integrated will help the business spread more sales over their fixed costs, which will help the business continue to offer growing earnings-per-share to shareholders.

Final Thoughts & Recommendation

Shares of Analog Devices have the potential to be a solid investment over the intermediate term. Total return prospects come in at 15.3% annually over the next 5 years - based on the combination of 10% EPS growth, continued dividend growth, and a slight valuation rerating of the stock to a higher P/E multiple. This security may be particularly attractive for dividend growth investors because this stock offers double-digit growth, along with a dividend that has grown for nearly two decades.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,701	2,634	2,865	3,435	3,421	5,246	6,225	5,991	5,603	7,318
Gross Profit	1,741	1,692	1,830	2,259	2,227	3,168	4,250	4,014	3,690	4,525
Gross Margin	64.5%	64.3%	63.9%	65.8%	65.1%	60.4%	68.3%	67.0%	65.9%	61.8%
SG&A Exp.	397	396	455	479	461	691	696	648	660	915
D&A Exp.	110	110	142	222	210	584	799	811	811	1,075
Operating Profit	832	783	790	831	1,042	1,212	1,961	1,806	1,551	1,777
Op. Margin	30.8%	29.7%	27.6%	24.2%	30.4%	23.1%	31.5%	30.1%	27.7%	24.3%
Net Profit	651	673	629	697	862	805	1,507	1,363	1,221	1,390
Net Margin	24.1%	25.6%	22.0%	20.3%	25.2%	15.4%	24.2%	22.8%	21.8%	19.0%
Free Cash Flow	682	789	694	754	1,164	950	2,187	1,978	1,843	2,391
Income Tax	162	142	100	113	95	129	148	123	91	(62)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,620	6,382	6,860	7,059	7,970	21,141	20,438	21,393	21,469	52,322
Cash & Equivalents	529	392	569	884	921	1,048	817	648	1,056	1,978
Acc. Receivable	340	325	397	467	478	689	640	635	738	1,459
Inventories	314	283	368	412	377	551	587	610	608	1,201
Goodwill & Int.	313	313	2,314	2,220	2,228	17,537	17,031	16,474	15,929	42,186
Total Liabilities	1,455	1,642	2,102	1,986	2,805	10,980	9,170	9,683	9,471	14,330
Accounts Payable	117	120	139	174	171	237	261	225	227	443
Long-Term Debt	822	872	873	870	1,732	7,851	6,333	5,492	5,145	6,770
Total Equity	4,165	4,740	4,758	5,073	5,166	10,162	11,268	11,709	11,998	37,993
LTD/E Ratio	0.20	0.18	0.18	0.17	0.34	0.77	0.56	0.47	0.43	0.18

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	12.0%	11.2%	9.5%	10.0%	11.5%	5.5%	7.2%	6.5%	5.7%	3.8%
Return on Equity	16.4%	15.1%	13.3%	14.2%	16.8%	10.5%	14.1%	11.9%	10.3%	5.6%
ROIC	13.5%	12.7%	11.2%	12.0%	13.4%	6.5%	8.5%	7.8%	7.1%	4.5%
Shares Out.	301	311	311	312	308	369	370	368	369	525
Revenue/Share	8.82	8.39	9.01	10.84	10.96	14.97	16.60	16.07	15.06	18.24
FCF/Share	2.23	2.51	2.18	2.38	3.73	2.71	5.83	5.30	4.95	5.96

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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