Analog Devices (ADI)

Updated May 25th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$172	**5 Year CAGR Estimate:**	12.7%	**Market Cap:**	$88 B
Fair Value Price:	$190	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	06/02/23
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	06/14/23
Dividend Yield:	2.0%	**5 Year Price Target**	$292	**Years Of Dividend Growth:**	19
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 a $88 billion market cap company that's been increasing dividend payments to shareholders for 19 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.

On February 14th, 2023, Analog Devices announced a 13% dividend increase to $0.86 per share quarterly.

On May 24th, 2023, Analog Devices reported second quarter 2023 results for the period ending April 29, 2023. For the quarter, the company reported revenue of $3.26 billion, up 10% compared to the prior year's quarter, and this beat analyst' estimates by $50 million. The company saw adjusted earnings per share of $2.83, which beat analyst estimates by 7 cents and represented 18% growth in EPS compared to the year-ago quarter.

During the quarter, Analog Devices repurchased $1.1 billion of its shares, and paid $400 million of dividends.

Management forecasts Analog Devices will generate revenue of $3.1 billion in fiscal Q3 2023 with adjusted operating margins of roughly 48.5%, and adjusted EPS of about $2.52.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.14	$2.40	$3.16	$3.07	$4.68	$5.95	$5.14	$4.91	$6.46	$9.57	***$10.53***	***$16.20***
DPS	$1.36	$1.48	$1.60	$1.68	$1.80	$1.92	$2.16	$2.48	$2.76	$2.97	***$3.44***	***$5.29***
Shares	311.0	311.0	312.0	308.0	369.0	370.0	368.0	369.0	525.0	515.0	***508.0***	***500.0***

Over the past five and nine years, Analog Devices has grown earnings-per-share at an average rate of 15.4% and 18.1% annually, respectively. The business is targeting a long term annual revenue growth rate of 7 to 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.

Analog sees 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 $10.53 in adjusted earnings-per-share for the fiscal year 2023. Over the intermediate term, we expect earnings per share to grow at 9% annually, guiding our 2028 earnings-per-share estimate of about $16.20.

Over the past five and nine years, Analog Devices has seen dividends grow at 9.6% and 9.1% annually. Currently, Analog Devices pays a quarterly dividend of $0.86, which is a $3.44 annualized dividend. Over the intermediate term, we expect dividends to grow in line with earnings-per-share at 9% annually, which guides our 2028 dividend estimate of $5.29.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	21.2	21.2	18.6	18.9	16.8	15.5	20.3	23.1	24.5	16.8	***16.4***	***18.0***
Avg. Yld.	3.0%	2.9%	2.7%	2.9%	2.3%	2.1%	2.1%	2.2%	1.5%	1.9%	***2.0%***	***1.8%***

Over the past five and nine years, Analog Devices has averaged a P/E ratio of 20.0 and 19.7, respectively. The security currently trades at a P/E ratio of 16.4, offering a dividend yield of 2.0%, which is lower than the historical average. We believe fair value can be pegged at around 18.0 times earnings, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

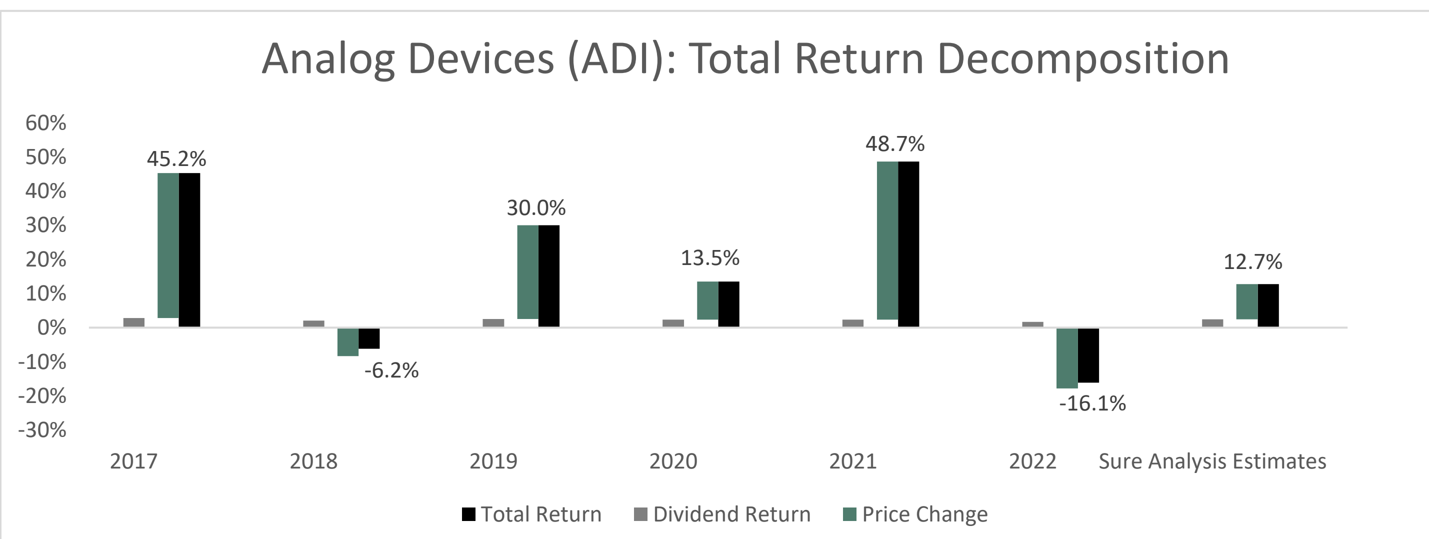
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	62%	51%	55%	38%	32%	42%	51%	43%	31%	***33%***	***33%***

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 12.7% annually over the next five years based on the combination of 9.0% EPS growth, a 2.0% dividend yield and a positive impact from the valuation rerating upwards. This security may be particularly attractive for dividend growth investors as the stock offers near double-digit growth, along with a dividend that has grown for nearly two decades.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,634	2,865	3,435	3,421	5,246	6,225	5,991	5,603	7,318	12,014
Gross Profit	1,692	1,830	2,259	2,227	3,168	4,250	4,014	3,690	4,525	7,532
Gross Margin	64.3%	63.9%	65.8%	65.1%	60.4%	68.3%	67.0%	65.9%	61.8%	62.7%
SG&A Exp.	396	455	479	461	691	696	648	660	915	1,266
D&A Exp.	110	142	222	210	584	799	811	811	1,075	2,297
Operating Profit	783	790	831	1,042	1,212	1,961	1,806	1,551	1,777	3,553
Op. Margin	29.7%	27.6%	24.2%	30.4%	23.1%	31.5%	30.1%	27.7%	24.3%	29.6%
Net Profit	673	629	697	862	805	1,507	1,363	1,221	1,390	2749
Net Margin	25.6%	22.0%	20.3%	25.2%	15.4%	24.2%	22.8%	21.8%	19.0%	22.9%
Free Cash Flow	789	694	754	1,164	950	2,187	1,978	1,843	2,391	3,776
Income Tax	142	100	113	95	129	148	123	91	(62)	350

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,382	6,860	7,059	7,970	21,141	20,438	21,393	21,469	52,322	50,302
Cash & Equivalents	392	569	884	921	1,048	817	648	1,056	1,978	1,471
Acc. Receivable	325	397	467	478	689	640	635	738	1,459	1,800
Inventories	283	368	412	377	551	587	610	608	1,201	1,400
Goodwill & Int.	313	2,314	2,220	2,228	17,537	17,031	16,474	15,929	42,186	40,179
Total Liabilities	1,642	2,102	1,986	2,805	10,980	9,170	9,683	9,471	14,330	13,837
Accounts Payable	120	139	174	171	237	261	225	227	443	582
Long-Term Debt	872	873	870	1,732	7,851	6,333	5,492	5,145	6,770	6,549
Total Equity	4,740	4,758	5,073	5,166	10,162	11,268	11,709	11,998	37,993	36,465
LTD/E Ratio	0.18	0.18	0.17	0.34	0.77	0.56	0.47	0.43	0.18	0.18

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.2%	9.5%	10.0%	11.5%	5.5%	7.2%	6.5%	5.7%	3.8%	5.4%
Return on Equity	15.1%	13.3%	14.2%	16.8%	10.5%	14.1%	11.9%	10.3%	5.6%	7.4%
ROIC	12.7%	11.2%	12.0%	13.4%	6.5%	8.5%	7.8%	7.1%	4.5%	6.3%
Shares Out.	311	311	312	308	369	370	368	369	525	523
Revenue/Share	8.39	9.01	10.84	10.96	14.97	16.60	16.07	15.06	18.24	22.96
FCF/Share	2.51	2.18	2.38	3.73	2.71	5.83	5.30	4.95	5.96	7.22

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