



Analog Devices (ADI)

Updated February 29th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$188	5 Year CAGR Estimate:	9.7%	Market Cap:	\$94 B
Fair Value Price:	\$125	5 Year Growth Estimate:	17.0%	Ex-Dividend Date:	03/04/24
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.8%	Dividend Payment Date:	03/15/24
Dividend Yield:	2.0%	5 Year Price Target	\$275	Years Of Dividend Growth:	20
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

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 \$94 billion market cap company that's been increasing dividend payments to shareholders for 20 consecutive years.

While Analog Devices might seem like a legacy company because it earns about 50% of its revenues from products that it's 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 20th, 2024, Analog Devices announced a 7% dividend increase to \$0.92 per share quarterly.

On February 21st, 2024, Analog Devices reported first quarter 2024 results for the period ending February 3rd, 2024. For the quarter, the company reported revenue of \$2.51 billion, down 23% compared to the prior year's quarter, which beat analysts' estimates by \$10 million. The company saw adjusted earnings-per-share of \$1.73, which also beat analysts' estimates by 2 cents and represented a 37% decline in EPS compared to the year-ago quarter.

During the quarter, Analog Devices repurchased \$180 million of its shares, and paid \$426 million in dividends.

Management forecasts Analog Devices will generate revenue of \$2.1 billion in fiscal Q2 2024 with adjusted operating margins of roughly 37%, and adjusted EPS of about \$1.26.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.40	\$3.16	\$3.07	\$4.68	\$5.95	\$5.14	\$4.91	\$6.46	\$9.57	\$10.09	\$5.97	\$13.09
DPS	\$1.48	\$1.60	\$1.68	\$1.80	\$1.92	\$2.16	\$2.48	\$2.76	\$2.97	\$3.34	\$3.68	\$5.66
Shares	311.0	312.0	308.0	369.0	370.0	368.0	369.0	525.0	515.0	500.0	495.0	480.0

Over the past five and nine years, Analog Devices has grown earnings-per-share at an average rate of 11.1% and 17.3% annually, respectively. The business is targeting a long term annual revenue growth rate of 7% to 10%, 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 its industrial segment, and growth in the EV market for its 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 \$5.97 in adjusted earnings-per-share for the fiscal year 2024. Over the intermediate term, we expect earnings per share to grow at 17% annually, guiding our 2029 earnings-per-share estimate of \$13.09.

Over the past five and nine years, Analog Devices has seen dividends grow at 9.8% and 8.0% annually. Currently, Analog Devices pays a quarterly dividend of \$0.92, which is \$3.68 annualized. Over the intermediate term, we expect the dividend per share to increase by 9% annually, which guides our 2029 dividend estimate of \$5.66.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.2	18.6	18.9	16.8	15.5	20.3	23.1	24.5	16.8	18.0	31.5	21.0
Avg. Yld.	2.9%	2.7%	2.9%	2.3%	2.1%	2.1%	2.2%	1.5%	1.9%	1.9%	2.0%	2.1%

Over the past five and nine years, Analog Devices has averaged a P/E ratio of 20.5 and 19.4, respectively. The stock currently trades at a P/E ratio of 31.5, which is significantly higher than its historical average. We peg fair value at 21.0 times earnings, implying the potential for a meaningful valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	62%	51%	55%	38%	32%	42%	51%	43%	31%	33%	62%	43%

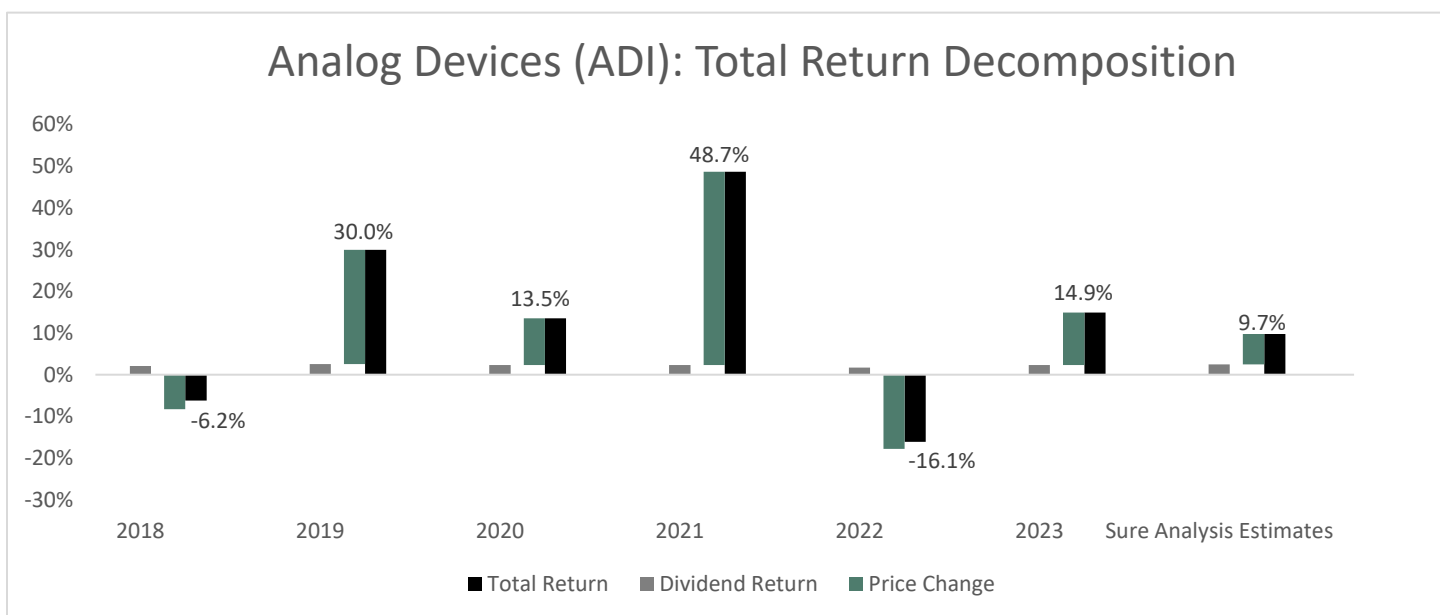
Analog has a competitive advantage in the Integrated Circuit market, where the company's scale allows it to compete against companies like Texas Instruments (TXN), Broadcom (AVGO) and Monolithic Power Systems (MPWR).

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 as of first quarter FY 2024, its leverage ratio was below 1.0X. As a result, the company is currently under no pressure to reduce its debt. While the dividend payout ratio of 62% is somewhat elevated for Analog, strong EPS growth ahead should clear the way for a lower payout over the next five years, enabling the company to continue boosting its dividend growth streak.

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 9.7% annually over the next five years based on the combination of 17% EPS growth, a 2.0% dividend yield and a negative impact from the valuation rerating downwards. 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 two decades. The stock earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,865	3,435	3,421	5,246	6,225	5,991	5,603	7,318	12,014	12,310
Gross Profit	1,830	2,259	2,227	3,168	4,250	4,014	3,690	4,525	7,532	7,877
Gross Margin	63.9%	65.8%	65.1%	60.4%	68.3%	67.0%	65.9%	61.8%	62.7%	64.0%
SG&A Exp.	455	479	461	691	696	648	660	915	1,266	1,274
D&A Exp.	142	222	210	584	799	811	811	1,075	2,297	2,293
Operating Profit	790	831	1,042	1,212	1,961	1,806	1,551	1,777	3,553	3,984
Op. Margin	27.6%	24.2%	30.4%	23.1%	31.5%	30.1%	27.7%	24.3%	29.6%	32.4%
Net Profit	629	697	862	805	1,507	1,363	1,221	1,390	2,749	3,315
Net Margin	22.0%	20.3%	25.2%	15.4%	24.2%	22.8%	21.8%	19.0%	22.9%	26.9%
Free Cash Flow	694	754	1,164	950	2,187	1,978	1,843	2,391	3,776	3,556
Income Tax	100	113	95	129	148	123	91	(62)	350	293

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,860	7,059	7,970	21,141	20,438	21,393	21,469	52,322	50,302	48,790
Cash & Equivalents	569	884	921	1,048	817	648	1,056	1,978	1,471	958
Acc. Receivable	397	467	478	689	640	635	738	1,459	1,800	1,470
Inventories	368	412	377	551	587	610	608	1,201	1,400	1,642
Goodwill & Int.	2,314	2,220	2,228	17,537	17,031	16,474	15,929	42,186	40,179	38,230
Total Liabilities	2,102	1,986	2,805	10,980	9,170	9,683	9,471	14,330	13,837	13,230
Accounts Payable	139	174	171	237	261	225	227	443	582	493
Long-Term Debt	873	870	1,732	7,851	6,333	5,492	5,145	6,770	6,549	6,949
Total Equity	4,758	5,073	5,166	10,162	11,268	11,709	11,998	37,993	36,465	35,570
LTD/E Ratio	0.18	0.17	0.34	0.77	0.56	0.47	0.43	0.18	0.18	0.20

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.5%	10.0%	11.5%	5.5%	7.2%	6.5%	5.7%	3.8%	5.4%	6.7%
Return on Equity	13.3%	14.2%	16.8%	10.5%	14.1%	11.9%	10.3%	5.6%	7.4%	9.2%
ROIC	11.2%	12.0%	13.4%	6.5%	8.5%	7.8%	7.1%	4.5%	6.3%	7.8%
Shares Out.	311	312	308	369	370	368	369	525	523	506
Revenue/Share	9.01	10.84	10.96	14.97	16.60	16.07	15.06	18.24	22.96	24.32
FCF/Share	2.18	2.38	3.73	2.71	5.83	5.30	4.95	5.96	7.22	7.03

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

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