Analog Devices (ADI)

Updated December 4th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$218	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$110 B
Fair Value Price:	$164	**5 Year Growth Estimate:**	17.0%	**Ex-Dividend Date:**	12/09/24
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	12/20/24
Dividend Yield:	1.7%	**5 Year Price Target**	$359	**Years Of Dividend Growth:**	20
Dividend Risk Score:	B	**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 $110 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 ten years, and its 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 November 26th, 2024, Analog Devices reported fourth quarter 2024 results for the period ending November 2nd, 2024. For the quarter, the company reported revenue of $2.44 billion, down 10% compared to the prior year's quarter, which beat analysts' estimates by $30 million. The company saw adjusted earnings-per-share of $1.67, which also beat analysts' estimates by 3 cents but represented a 17% decline in EPS compared to the year-ago quarter.

For FY 2024, Analog Devices' adjusted EPS plunged 37% to $6.38 from $10.09. The company repurchased $616 million of its shares, and paid $1.8 billion in dividends in the year.

Management forecasts Analog Devices will generate revenue of $2.35 billion in fiscal Q1 2025 with adjusted operating margins of roughly 40%, and adjusted EPS of about $1.53.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.16	$3.07	$4.68	$5.95	$5.14	$4.91	$6.46	$9.57	$10.09	$6.38	***$7.11***	***$15.59***
DPS	$1.60	$1.68	$1.80	$1.92	$2.16	$2.48	$2.76	$2.97	$3.34	$3.62	***$3.68***	***$5.66***
Shares	312.0	308.0	369.0	370.0	368.0	369.0	525.0	515.0	500.0	498.7	***496.0***	***480.0***

Over the past five and nine years, Analog Devices has grown earnings-per-share at an average rate of 4.4% and 8.1% 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 $7.11 in adjusted earnings-per-share for the fiscal year 2025. Over the intermediate term, we expect earnings per share to grow at 17% annually, guiding our 2030 earnings-per-share estimate of $15.59.

Over the past five and nine years, Analog Devices has seen the dividend grow at 10.9% and 9.5% annually. Currently, Analog Devices pays a quarterly dividend of $0.92, which is $3.68 annually. Over the intermediate term, we expect the dividend per share to increase by 9% annually, which guides our 2030 dividend estimate of $5.66.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.6	18.9	16.8	15.5	20.3	23.1	24.5	16.8	18.0	33.4	***30.7***	***23.0***
Avg. Yld.	2.7%	2.9%	2.3%	2.1%	2.1%	2.2%	1.5%	1.9%	1.9%	1.7%	***1.7%***	***1.6%***

Over the past five and ten years, Analog Devices has averaged a P/E ratio of 20.6 and 23.2, respectively. The stock currently trades at a P/E ratio of 30.7, which is significantly higher than its historical average. We peg fair value at 23.0 times earnings, implying the potential for a meaningful valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	51%	55%	38%	32%	42%	51%	43%	31%	33%	57%	***52%***	***36%***

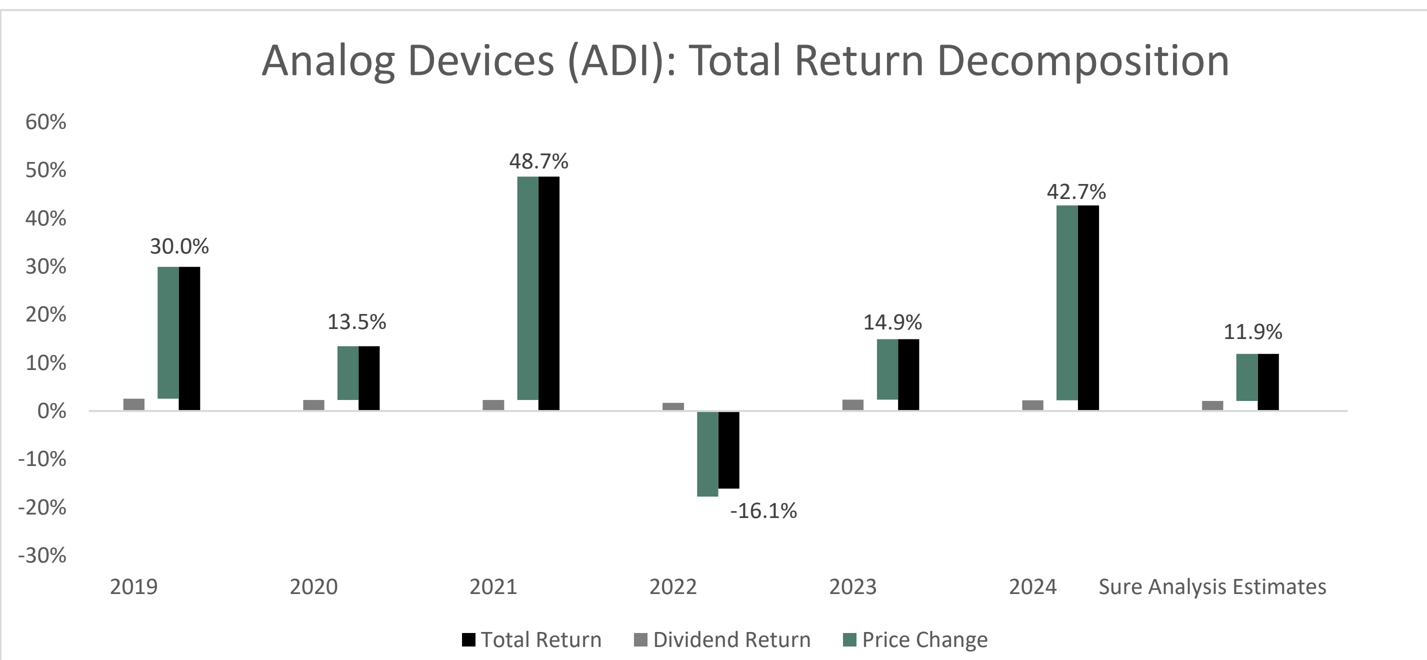
Analog has a competitive advantage in the Integrated Circuit market, where the company's scale allows it to compete against companies like Texas Instruments (TXN), Broadcom (AVGO) and Monolithic Power Systems (MPWR).

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 fourth quarter FY 2024, its net leverage ratio was 1.2X. As a result, the company is currently under no great pressure to reduce its debt. While the dividend payout ratio of 52% 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 11.9% annually over the next five years based on the combination of 17% EPS growth, a 1.7% 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 a reliable dividend which has grown by double digits in the last five years, and grown for two decades. Analog Devices earns a buy rating.

Total Return Breakdown by Year



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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	3,435	3,421	5,246	6,225	5,991	5,603	7,318	12,014	12,310	9427
Gross Profit	2,259	2,227	3,168	4,250	4,014	3,690	4,525	7,532	7,877	5381
Gross Margin	65.8%	65.1%	60.4%	68.3%	67.0%	65.9%	61.8%	62.7%	64.0%	57.1%
SG&A Exp.	479	461	691	696	648	660	915	1,266	1,274	1069
D&A Exp.	222	210	584	799	811	811	1,075	2,297	2,293	2104
Operating Profit	831	1,042	1,212	1,961	1,806	1,551	1,777	3,553	3,984	2070
Op. Margin	24.2%	30.4%	23.1%	31.5%	30.1%	27.7%	24.3%	29.6%	32.4%	22.0%
Net Profit	697	862	805	1,507	1,363	1,221	1,390	2749	3,315	1635
Net Margin	20.3%	25.2%	15.4%	24.2%	22.8%	21.8%	19.0%	22.9%	26.9%	17.3%
Free Cash Flow	754	1,164	950	2,187	1,978	1,843	2,391	3,776	3,556	3122
Income Tax	113	95	129	148	123	91	(62)	350	293	142

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	7,059	7,970	21,141	20,438	21,393	21,469	52,322	50,302	48,790	48230
Cash & Equivalents	884	921	1,048	817	648	1,056	1,978	1,471	958	1991
Acc. Receivable	467	478	689	640	635	738	1,459	1,800	1,470	1336
Inventories	412	377	551	587	610	608	1,201	1,400	1,642	1448
Goodwill & Int.	2,220	2,228	17,537	17,031	16,474	15,929	42,186	40,179	38,230	36500
Total Liabilities	1,986	2,805	10,980	9,170	9,683	9,471	14,330	13,837	13,230	13050
Accounts Payable	174	171	237	261	225	227	443	582	493	487
Long-Term Debt	870	1,732	7,851	6,333	5,492	5,145	6,770	6,549	6,949	7582
Total Equity	5,073	5,166	10,162	11,268	11,709	11,998	37,993	36,465	35,570	35180
LTD/E Ratio	0.17	0.34	0.77	0.56	0.47	0.43	0.18	0.18	0.20	0.22

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	10.0%	11.5%	5.5%	7.2%	6.5%	5.7%	3.8%	5.4%	6.7%	3.4%
Return on Equity	14.2%	16.8%	10.5%	14.1%	11.9%	10.3%	5.6%	7.4%	9.2%	4.6%
ROIC	12.0%	13.4%	6.5%	8.5%	7.8%	7.1%	4.5%	6.3%	7.8%	3.8%
Shares Out.	312	308	369	370	368	369	525	523	506	499
Revenue/Share	10.84	10.96	14.97	16.60	16.07	15.06	18.24	22.96	24.32	18.90
FCF/Share	2.38	3.73	2.71	5.83	5.30	4.95	5.96	7.22	7.03	6.26

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