



Microchip Technology Incorporated (MCHP)

Updated February 11th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	13.7%	Market Cap:	\$28.4 B
Fair Value Price:	\$23	5 Year Growth Estimate:	30.0%	Ex-Dividend Date:	02/24/2025
% Fair Value:	228%	5 Year Valuation Multiple Estimate:	-15.2%	Dividend Payment Date:	03/07/2025
Dividend Yield:	3.4%	5 Year Price Target	\$86	Years Of Dividend Growth:	22
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Microchip Technology develops, manufactures, and sells smart, connected and secure embedded control solutions used for a wide variety of applications. These include disruptive growth trends such as 5G, artificial intelligence, Internet of Things (IoT), and autonomous driving, amongst others, in key end markets such as automotive, aerospace and defense, communications. The company's strategic focus is that these solutions are cost-effective, offer high performance, with a wide voltage range operation, at extremely low power usage. Microchip Technology generates around \$6 billion in annual revenues and is based in Chandler, Arizona.

On November 5th, 2024, Microchip Technology raised its dividend by 0.2% to a quarterly rate of \$0.455. On a year-over-year basis, the dividend grew by 3.6%. It marked the 61st consecutive sequential increase. The company didn't raise the dividend again in FQ3, breaking this streak.

On February 6th, 2025, Microchip Technology posted its fiscal Q3 results for the quarter ending December 31st, 2024. For the quarter, net sales were \$1.03 billion, down 41.9% from the comparable period last year.

Lower revenues were driven by weaker business conditions following several consecutive periods of record growth. Due to lower production, GAAP gross margins fell from 63.4% last year to 54.7%. This fall in sales and compression in margins led to a net loss \$53.6 million, or \$0.10 per diluted share, down from net income of \$419.2 million, or \$0.77 per share, last year. On a non-GAAP basis, EPS was \$0.20 versus \$1.08 in Q3-2024.

Non-GAAP results are more meaningful in understanding Microchip's operating performance as it excludes its high share-based compensation, manufacturing excursion, high depreciation & amortization, and other factors. We use non-GAAP figures to accurately value the stock and assess its future returns, but all other figures in the table are GAAP-based, as officially shown in the company's filings with the SEC.

We expect the ongoing weakness to persist as the company's as customers and channel partners continued to reduce inventory. Thus, we project non-GAAP EPS of \$1.29 for FY2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.92	\$0.80	\$0.38	\$0.55	\$0.75	\$1.19	\$0.67	\$2.33	\$4.07	\$3.52	\$1.29	\$4.79
DPS	\$0.71	\$0.72	\$0.72	\$0.72	\$0.73	\$0.73	\$0.75	\$0.91	\$1.26	\$1.68	\$1.82	\$3.66
Shares¹	447.1	434.8	469.6	497.8	499.8	512.4	541.2	565.9	557.3	548.0	537.4	580.0

Microchip Technology's EPS has struggled to improve meaningfully over the past decade despite the company growing its revenues relatively consistently. This has been mostly due to higher operating and R&D expenses, as well as increased financial expenses. However, with management's goal to expand margins while taking advantage of the ongoing sky-high demand for chips, non-GAAP EPS started to snowball post-pandemic. While weakness in the industry is likely to pressure EPS this year, we expect growth of 30% over the medium-term, which reflects starting off a depressed based in FY2024. In terms of its dividend, Microchip has hiked it 82 times (including a track record of 61 consecutive sequential hikes that ended in FQ3-2025) over the past 22 years. These quarter-over-quarter increases were quite marginal in some

¹ Share count is in millions.

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cases (look at 2014 to 2021 for example). That said, we see DPS growth of 15% moving forward to reflect the recent DPS growth acceleration and management's goal of returning 100% of Microchip's adjusted free cash flow to shareholders by FQ4 2025.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	27.7	38.4	113.2	64.5	62.3	50.2	118.5	30.6	17.7	35.6	41.0	18.0
Avg. Yld.	2.8%	2.3%	1.7%	2.0%	1.6%	1.2%	0.9%	1.3%	1.8%	1.3%	3.4%	4.2%

Microchip is now trading at a P/E of 41x our expected FY2025 adjusted EPS estimate. This multiple reflects the market's expectation for a strong rebound in earnings growth from FY2026 onwards. Nevertheless, this multiple also implies a natural valuation headwind from our fair multiple of 18.0x EPS. The yield is now hovering at rather attractive levels, but we expect it to rise further following a multiple compression and the possibility of continued dividend hikes

Safety, Quality, Competitive Advantage, & Recession Resiliency

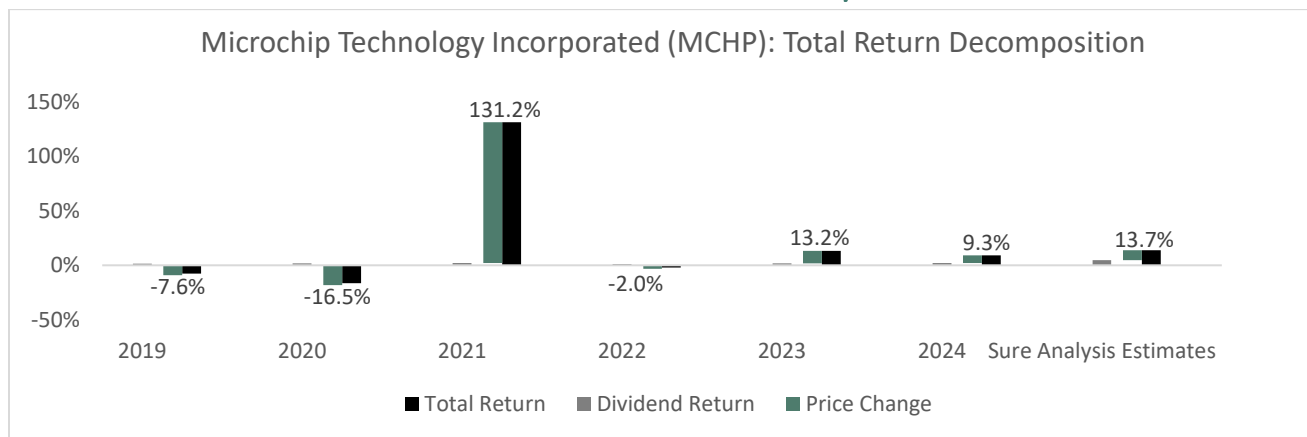
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	77%	90%	189%	131%	97%	61%	112%	39%	31%	48%	141%	76%

Microchip's dividend should remain covered by operating cash flows under normal conditions, despite the 141% payout ratio currently. The normalized payout ratio seems high in previous years as well, but only due to the company's GAAP results, which carry heavy stock-based compensation expenses and depreciation & amortization (a non-cash item). The company enjoys several qualities and positive catalysts, including a solid backlog that should provide predictable cash flows moving forward. Further, the company's net debt position has been on the decline (now \$6.20 billion vs. \$10.70 billion in 2018). Still, Microchip faces several noteworthy risks, including fierce competition, global industrial cyclical effects, limited visibility to product shipments, and international risks such as FX fluctuations due to its global clientele. A global recession could adversely impact the company's results, though global demand for chips remains far ahead of supply capabilities, at least for now.

Final Thoughts & Recommendation

Shares of Microchip Technologies have been under pressure lately. Despite another weak quarter, the company should continue to grow EPS at a rapid pace from FY2026 onwards. Further, management should remain committed to growing the dividend, despite scraping its track record of sequential hikes in FQ3-2025, which should add to total returns. We see annualized returns of 13.7% through fiscal year 2030 despite the possibility of a heavy multiple compression, as a strong rebound in EPS is possible. Shares earn a speculative buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2,147	2,173	3,408	3,981	5,350	5,274	5,438	6,821	8,439	7,634
Gross Profit	1,230	1,206	1,757	2,421	2,931	3,242	3,379	4,450	5,698	4,996
Gross Margin	57.3%	55.5%	51.6%	60.8%	54.8%	61.5%	62.1%	65.2%	67.5%	65.4%
SG&A Exp.	275	302	500	452	683	677	610	719	798	734
D&A Exp.	278	283	469	616	876	1,216	1,153	1,144	998	880
Operating Profit	428	356	374	954	748	694	1,000	1,879	3,112	2,559
Operating Margin	20.0%	16.4%	11.0%	24.0%	14.0%	13.2%	18.4%	27.5%	36.9%	33.5%
Net Profit	369	324	165	255	356	571	349	1,286	2,238	1,907
Net Margin	17.2%	14.9%	4.8%	6.4%	6.7%	10.8%	6.4%	18.9%	26.5%	25.0%
Free Cash Flow	572	647	984	1,213	1,446	1,476	1,824	2,473	3,135	2,608
Income Tax	(19)	(43)	(81)	482	(151)	(420)	(10)	197	672	459

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4781	5538	7687	8257	18350	17426	16479	16200	16370	15,870
Cash & Equivalents	608	2093	909	901	429	401	280	317	234	320
Accounts Receivable	274	290	478	564	881	934	998	1070	1,300	1,142
Inventories	279	307	417	476	712	686	665	854	1,300	1,316
Goodwill & Int. Ass.	1076	1619	4447	3961	13350	12367	11465	10720	1325	9,457
Total Liabilities	2720	3387	4416	4977	13063	11841	11142	10300	9857	9,215
Accounts Payable	87	79	149	144	226	247	292	345	397	213
Long-Term Debt	1827	2453	2951	3068	10307	9482	8904	7687	6440	6,000
Shareholder's Equity	2045	2151	3271	3280	5288	5586	5337	5895	6514	6,658
LTD/E Ratio	0.89	1.14	0.90	0.94	1.95	1.70	1.67	1.30	0.99	0.90

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	8.3%	6.3%	2.5%	3.2%	2.7%	3.2%	2.1%	7.9%	13.7%	11.8%
Return on Equity	17.7%	15.4%	6.1%	7.8%	8.3%	10.5%	6.4%	22.9%	36.1%	29.0%
ROIC	10.5%	7.6%	3.0%	4.1%	3.2%	3.7%	2.4%	9.2%	16.9%	14.9%
Shares Out.	223.6	217.4	234.8	248.9	249.9	256.2	270.6	565.9	557.3	548
Revenue/Share	9.60	10.00	14.51	15.99	21.41	20.59	20.10	12.05	15.14	13.93
FCF/Share	2.56	2.97	4.19	4.87	5.79	5.76	6.74	4.37	5.63	4.76

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

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