

## ADI F1Q Declines, Inventory Expected to Correct this Quarter

ADI	24 est.	Analog Devices	FY24rev:	-26%
<b>Qtr:</b>	F1Q	<b>Grade:</b>	D	<b>Growth (qtr-qtr)</b>
<b>Rev:</b>	2,512.7	<b>Rev:</b>	+	<b>Rev:</b> -7.5%
<b>GM:</b>	69.0%	<b>EPS:</b>	++	<b>Fcst:</b> -20-12%
<b>EPS:</b>	\$1.73	<b>Fcst:</b>	--	<b>Div:</b> \$0.92

**Analog Devices** (ADI \$191.22 -3.98 on 3/18/24)

**F1Q Earnings:** ADI reported January-ended F1Q24 results on February 21 above expectations and the mid-point of guidance. F2Q guidance for a double-digit sequential decline is expected to normalize customer and channel inventories given improved bookings last quarter, and 2HFY24 shipments are expected to reflect underlying demand that will govern the shape and timing of the recovery.

**F1Q Results:** F1Q sequential declines in sales of -7.5%, gross margin down 120 basis points, and EPS reflected a continuation of the customer inventory correction that began mid-2023. Gross margin suffered from unfavorable product mix and lower revenue and factory utilization; op ex declined by -2% despite the extra week due to lower variable comp and discretionary spending, as well as structural cost savings; cash grew >\$340M to \$1.3B; inventory decreased \$90M while days increased to 201 on lower sales; and channel inventory dollars declined and finished slightly above its 7-8 week target. ADI continues to return 100% of free-cash-flow to shareholders over the long term with 40-60% in dividends (just raised for the 20<sup>th</sup> consecutive year) and the balance in share repurchases.

**Industrial** sales declined by -12% sequentially and accounted for 48% of total revenue due to broad-based weakness and continuing customer inventory depletion.

**Automotive** grew for the 14<sup>th</sup> consecutive quarter by +2% and accounted for 29% of sales lead by strength from the company's leading connectivity and functionally safe power solutions with a focus on secular trends of electrification, advanced safety systems and immersive digital in-cabin experiences.

**Communications** declined by -10% and accounted for 12% of revenue as wireline benefited from AI-related demand, but wireless decreased as 5G spending remained depressed.

**Consumer** dropped by -7% and accounted for 11% of sales due to continued weakness across applications.

**F2Q Guidance:** Revenue of \$2.1B +/- \$100M, or down -20-12% sequentially on weakness across all end-markets—especially industrial. Sell-through will continue to exceed sell-in as 'meaningful' channel inventory is depleted. Operating margin 15.1%, +/-200 bps and adjusted operating margin 37.0%, +/-100 bps due to unfavorable mix and lower utilization as in-house inventory is further reduced. Taxes 11-13%, EPS \$0.46, +/- \$0.10 and adjusted EPS \$1.26, +/- \$0.10. Management believes the company is well positioned for the next market recovery given its replenished die banks, short lead times, and agile hybrid manufacturing model.

**Full Valuation:** ADI's fiscal year ends October and consensus currently reflects a FY24 sales decline of -26% and EPS decline of -41% before FY25 gains of +13% and +26%, respectively. On a TTM, current and next FY basis, price/sales is at 8.2x, 10.4x and 9.3x, respectively, while price/earnings is at 21.1x, 32.2x and 25.5x. Price/book is at 2.7x but swings negative on a tangible basis and the company's debt drives net cash negative, although: free cash flow is positive; the dividend yields 1.9%; and the company continues to repurchase shares. Valuation metrics appear pretty much fully valued to current expectations, in my opinion.

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LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

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## ADI Financials

FYE October	FY2021	FY2022					FY2023					FY2024
	FY21	F1Q	F2Q	F3Q	F4Q	FY22	F1Q	F2Q	F3Q	F4Q	FY23	F1Q
<b>End-Market</b>												
Industrial	4,798.0	1,371.0	1,538.0	1,600.0	1,718.0	6,227.0	1,741.0	1,820.0	1,682.0	1,359.0	6,602.0	1,196.8
Automotive	1,891.0	537.0	610.0	631.0	627.0	2,405.0	681.0	735.0	727.0	727.0	2,870.0	739.2
Communications	1,456.0	408.0	467.0	480.0	499.0	1,854.0	477.0	438.0	359.0	337.0	1,611.0	302.6
Consumer	1,395.0	368.0	357.0	399.0	404.0	1,528.0	351.0	270.0	309.0	294.0	1,224.0	274.1
Total Revenue	9,540.0	2,684.0	2,972.0	3,110.0	3,248.0	12,014.0	3,250.0	3,263.0	3,077.0	2,717.0	12,307.0	2,512.7
<b>non-GAAP</b>												
Gross Margin	65.0%	71.9%	74.2%	74.1%	74.0%	73.6%	73.6%	73.7%	72.2%	70.2%	72.5%	69.0%
Operating Margin	38.2%	45.8%	50.3%	50.1%	51.1%	49.4%	51.0%	51.2%	47.8%	44.7%	48.9%	42.0%
EPS (GAAP)	6.79	0.53	1.49	1.44	1.82	5.28	1.88	1.92	1.74	1.00	6.54	0.93
EPS (non-GAAP)		1.94	2.40	2.52	2.73	9.59	2.75	2.83	2.49	2.01	10.08	1.73
Dividends/Share	2.25	0.76	0.76	0.76	0.76	3.04	0.86	0.86	0.86	0.86	3.44	0.92
Shares Repurchased							4.061	6.198	3.687	2.529	16.475	1.030
<b>End-Market Percent</b>												
Industrial	50.3%	51.1%	51.7%	51.4%	52.9%	51.8%	53.6%	55.8%	54.7%	50.0%	53.6%	47.6%
Automotive	19.8%	20.0%	20.5%	20.3%	19.3%	20.0%	21.0%	22.5%	23.6%	26.8%	23.3%	29.4%
Communications	15.3%	15.2%	15.7%	15.4%	15.4%	15.4%	14.7%	13.4%	11.7%	12.4%	13.1%	12.0%
Consumer	14.6%	13.7%	12.0%	12.8%	12.4%	12.7%	10.8%	8.3%	10.0%	10.8%	9.9%	10.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>End-Market Growth</b>												
Industrial		7.8%	12.2%	4.0%	7.4%	29.8%	1.3%	4.5%	-7.6%	-19.2%	6.0%	-11.9%
Automotive		9.6%	13.6%	3.4%	-0.6%	27.2%	8.6%	7.9%	-1.1%	0.0%	19.3%	1.7%
Communications		10.3%	14.5%	2.8%	4.0%	27.3%	-4.4%	-8.2%	-18.0%	-6.1%	-13.1%	-10.2%
Consumer		-8.5%	-3.0%	11.8%	1.3%	9.5%	-13.1%	-23.1%	14.4%	-4.9%	-19.9%	-6.8%
Total		5.9%	10.7%	4.6%	4.4%	25.9%	0.1%	0.4%	-5.7%	-11.7%	2.4%	-7.5%
<b>Channel Percent</b>												
Distributors	62.7%	61.6%	62.2%	61.8%	62.6%	62.1%	61.9%	61.2%	61.9%	59.7%	61.2%	61.1%
Direct	35.5%	37.4%	36.7%	36.9%	36.4%	36.8%	36.8%	37.5%	36.6%	38.9%	37.4%	37.4%
other	1.7%	1.0%	1.0%	1.3%	1.0%	1.1%	1.3%	1.3%	1.5%	1.4%	1.4%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Geography Percent</b>												
US	32.6%					33.5%					33.8%	
Rest of Americas	0.6%					0.6%					0.7%	
Europe	21.8%					21.1%					24.4%	
Japan	10.8%					10.2%					11.4%	
China	22.1%					21.3%					18.1%	
Rest of Asia	12.2%					13.3%					11.6%	
Total	100.0%					100.0%					100.0%	
Distributor 1	26%					22%					25%	
Distributor 2	11%					10%					10%	

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